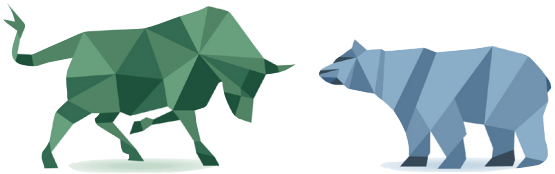
August 5, 2019

Braeburn Observations



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Despite a near-term possibility of a Selling Control #2, the intermediate term health of the market appears intact. And, whether it is a short-term pullback to attract new buyers or the fresh legs of small-cap stocks rejuvenating Demand, without the elements of a major market top in place, our analysis suggests new market highs in the months ahead.

U.S. MARKETS

U.S. stocks suffered their worst week of the year as investors were hit by the twin blows of disappointing signals from the Federal Reserve and the announcement of new tariffs on imports from China. Most of the markets' declines came late in the week as both trading volumes and volatility spiked. The Dow Jones Industrial Average gave up 707 points, or -2.6%, to finish the week at 26,485. The technology-heavy NASDAQ Composite plunged -3.9% barely holding on to the 8,000 level at 8004. By market cap, the large cap S&P 500 index finished down -3.1%, while the mid caps were hardest hit, off -3.5%. The small cap Russell 2000 managed a lesser -2.9% decline.

INTERNATIONAL MARKETS

Like the U.S., international markets were a sea of red last week. Canada's TSX gave up 1.6% while the United Kingdom's FTSE retreated -1.9%. France's CAC 40 plunged -4.5%, Germany's DAX lost 4.4%, and Italy's Milan FTSE finished down -3.6%. In Asia, China's Shanghai Composite and Japan's Nikkei each fell -2.6%. As grouped by Morgan Stanley Capital International, developed markets retreated -2.8% while emerging markets plunged -5.0%.

U.S. ECONOMIC NEWS

The number of Americans claiming first-time unemployment benefits rose last week, but remained near historically low levels. The Labor Department reported initial jobless claims rose by 8,000 to 215,000. Economists had expected new claims would total 210,000. The number remains far below the key 300,000 threshold analysts use to gauge a "healthy" jobs market and near 50-year lows. The more stable monthly average of new claims fell by 1,750 to 211,500. Continuing claims, which counts the number of Americans already receiving benefits, rose by 22,000 to 1.69 million. That number is also near a 40-year low.

The Bureau of Labor Statistics reported the U.S. added 164,000 new jobs in July holding unemployment near its 50-year low of 3.7%. The strong jobs report underscored the strength of the U.S. labor market that shows little sign of deterioration despite an economy facing growing headwinds. The increase in new jobs was in line with economists' forecasts. Analysts note, however, that the lowest unemployment rate since the late 1960's is not generating the kind of wage increases workers used to receive when the labor market was this tight. In the past wages typically rose as much as 4% a year when unemployment was extremely low—currently wages are up just 3.2%. In the report, professional and business services led the way in hiring adding 31,000 jobs, while healthcare companies added 30,000, and social assistance providers increased by 20,000. Employment fell for sixth month in a row among retailers and media and information services also shed jobs.

Pending home sales (the number of homes in which a sales contract has been signed, but not yet closed) rose in June helped by gains in the western part of the U.S. The National Association of Realtors (NAR) reported pending home sales rose 2.8% across the country, with each of the four major regions reporting gains. Compared to the same time last year, sales were up 1.6%--their first year-over-year gain in 17 months. From the same time last year, pending home sales were up 0.9% in the Northeast, 1.7% in the Midwest, 1.4% in the South, and 2.5% in the West. Lawrence Yun, chief economist for the NAR wrote in the release, "Job growth is doing well, the stock market is near an all-time high and home values are consistently increasing. When you combine that with the incredibly low mortgage rates, it is not surprising to now see two straight months of increases."

Despite the increase in pending homes sales, the growth in home prices slowed further in May according to the latest report from S&P CoreLogic. The Case-Shiller 20-city home price

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index rose 0.1% in May compared with April. On an annual basis, prices were up 2.4% compared with a 2.5% annual rate the prior month. That marks the 14th consecutive month in which the annual rise in home prices has slowed and is the slowest growth rate since August 2012. Home prices have been slowing since March of 2018 and lower mortgage rates haven't been able to stop the trend. Reviewing some of the hot-spots, the Case Shiller report showed that Seattle home prices are down -1.2% from last year, but home prices in San Francisco and Las Vegas continued to increase—up 1% and 6.4%, respectively.

In a widely-expected move, the Federal Reserve cut interest rates this week, but the amount and the message disappointed financial markets. Stocks dropped after Fed chief Jerome Powell cut interest rates by a quarter point but implied that this might be a one-and-done deal instead of the first of several such cuts. Markets were apparently hoping for a more aggressive monetary-easing campaign. Instead, Fed Chairman Jerome Powell described the interest-rate cut, the first since the 2008 financial crisis, as a "mid-cycle adjustment" that will hopefully get the economy going again. In addition, Powell stated he didn't see the cut as the "beginning of a lengthy cutting cycle." Markets sensed the Fed was less dovish than hoped as soon as the statement was announced, but dropped sharply once Powell rejected a large amount of easing. The Fed also said it was ending the program to shrink its balance sheet, known as quantitative tightening, on Aug. 1--two months earlier than planned.

Confidence among the nation's consumers surged to a nearly 18-year high, the Conference board reported this week. The board's consumer confidence index jumped 11.4 points to 135.7 in July, blowing away economists' forecasts for a reading of 126. Confidence took a dive in June after trade talks with China hit an impasse and President Trump threatened to apply tariffs to all Mexican exports in a dispute over security at the Southern border. In the details, the present situation index, a measure of how consumers view the economy right now, rose to 170.9 from 164.3. Another index that asks consumers their views of the future also advanced. Both indexes are near the highest levels of the current economic expansion that began in mid-2009. Lynn Franco, director of economic indicators at the board stated, "These high levels of confidence should continue to support robust spending in the near-term despite slower growth in GDP."

The University of Michigan reported that the final reading of its consumer-sentiment index for July rose as well, up 0.2 point to 98.4 in July. Economists had expected a reading of 98.5. The index of consumer expectations rose while that for current conditions fell. Recent surveys have shown the most favorable personal finance expectations since late spring of 2003, but consumers have also begun to take precautionary measures to increase savings and reduce debt. Attitudes toward buying homes and vehicles have significantly receded from their cyclical peaks despite declining interest rates, the University of Michigan said.

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perceptives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Fat Pitch - an acclaimed blog that the Business Insider ranks on their annual list of the Top Finance People to Follow. The blog is written by Urban Carmel who has had a long career in financial markets. This blog discusses trends he sees and the business of managing money.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time prefessional money manager who developed an in-depth expertise in computerized analysys and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.

BRAEBURN Wealth Management