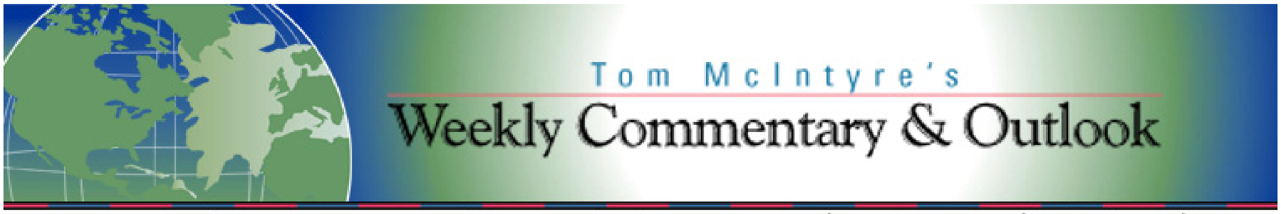
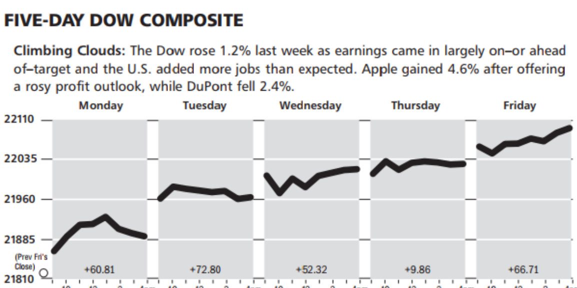
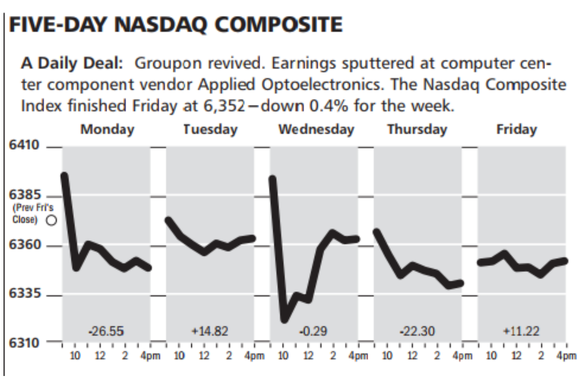


McIntyre, Freedman & Flynn, Investment Advisers, Inc. · 4 Main Street · P.O.Box 1689 · Orleans, MA 02653 · (508)255.1651

This is Tom McIntyre with another client update as of Monday, August 7th, 2017.

Markets continue to respond to overall strong corporate profits as well as the likelihood that gridlock in Washington DC is here to stay.





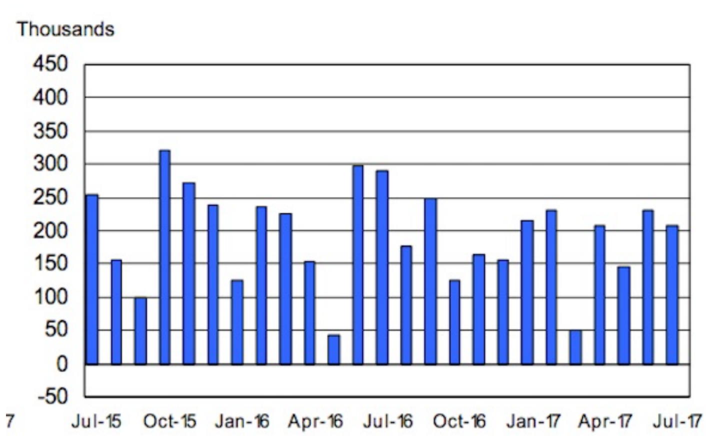
As the charts above illustrate, the **Dow Jones Industrial Average** gained just over one percent, due strictly to Apple, while the **NASDAQ Composite** was fractionally lower for the week on concerns that valuations for certain high flyers had gotten too high.

Markets & Economy

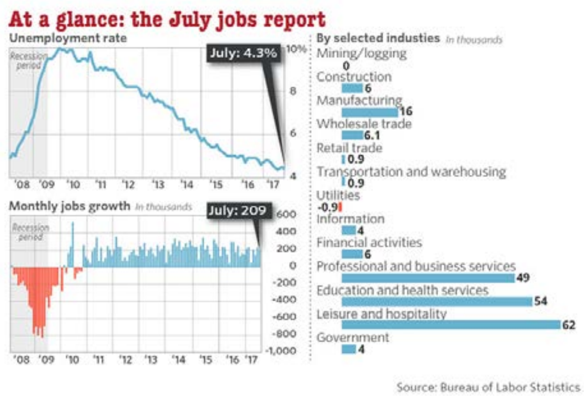
Well, it was another week with more evidence that the economy of the past eight years remains the same as we head into the back half of 2017. Clearly, there are good signs but also signs of weakness.

On the positive side, last Friday's employment report for which I have little regard showed a gain of 209,000 jobs (see bar chart below). This was higher than expected but as the chart indicates certainly falls into the range of numbers which we have become accustomed to.

Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, July 2015 – July 2017



Remarkably, the chart below details just where these gains are coming from. Sadly, once again the largest component was 53,000 jobs in the bars and restaurants category. When you combine this with the part time jobs it presents us with another report which featured anemic wage growth. Friday's report showed wages rising at just a 2.5% rate over the previous year. Not enough to sustain strong consumer spending which has been showing up now in the retail sales data for some time.



As evidence of this look at the chart below breaking down July car sales. Virtually every car company showed lousy sales with General Motors down 15%. Inventories are way out of whack with current activity and this is not a good indicator for the second half of the year for this sector. This should not be the case if one believes the hype about the economy and the so called "record" low unemployment rate. Interest rates are low, cars are being financed over 5 to 6 years (absurd) and yet the industry is in a slowdown.

Driving Down

Analysts had expected every major automaker to report declining U.S. auto sales for July

Car manufacturer	Light vehicles sold	Actual YoY change	Analyst YoY estimates	Actual vs. estimates
GM	226,107	-15%	-8%	Miss
Ford	199,318	-7.4	-5.5	Miss
Fiat Chrysler	161,477	-10	-6.1	Miss
Toyota	222,057	3.6	-3.8	Beat
Honda	150,980	-1.2	-3.6	Beat
Nissan	128,295	-3.2	-3.3	Beat
Hyundai-Kia	110,466	-18	-12	Miss
VW-Audi	45,915	-2.6	-2.8	Beat

Sources: Bloomberg reporting, company statements
"--" indicates that the figure hasn't yet been released
Bloomberg

The positive news from last week's employment picture though is that the participation rate continues its slight uptick. This means that some of those 95 MILLION working age healthy Americans are once again dipping their feet into the job search. They are finding them but the quality is underwhelming. Still, this is a positive and reflects optimism that the Trump domestic agenda of tax cuts and regulatory relief is improving sentiment at least.

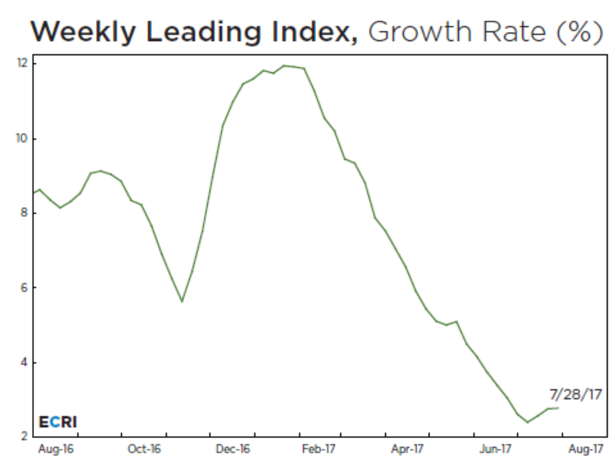
Finally, earlier last week the government reported that GDP grew at an annualized rate of 2.6% for the second quarter. This was an uptick from Q1 but doesn't change the picture for the year. For this year, the economy will come in at 2% plus or minus. Inflation is once again falling and unless Trump gets his tax cuts accomplished, next year will be more of the same. One good thing though is that the falling dollar and Trump's rhetoric has produced something of a resurgence in US exports. This more than anything else served to goose upwards the growth rate we saw in Q2.

What to Expect This Week

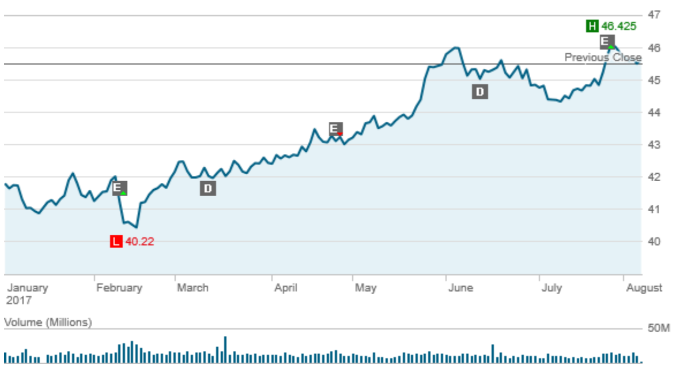
Earnings season has virtually ended and summer is wrapping up. Congress is out and markets should begin to experience some quiet but you never know.

This week will see many speeches by Fed board members. They should be ignored but absent any other stimulus they stand the chance of grabbing trader's attention.

Finally, the chart of the ECRI's leading indicators shown below indicates another very minor improvement. Nothing to note here except that the long-term trend lower has stopped for now.



Symbol: KO



COCA-COLA's profits beat analysts' estimates thanks to higher demand for its non-carbonated beverages as well as low and no-sugar versions of its sodas. KO adjusted earnings came in at 59 cents a share, two cents better than estimates. Revenue fell slightly to $9.7 billion due to refranchising of bottling territories and a strong dollar, but still beat expectations.

New COKE CEO James Quincey said organic revenue growth in sparkling soft drinks and COCA-COLA ZERO SUGAR helped the Company excel during the quarter. Global volume sales of low and no-calorie soda drinks rose in the mid-single digits in the second quarter. KO raised their forecast for the remainder of 2017 to be flat or down slightly, which is an improvement from the Company's earlier forecast of a loss of 1 to 3 percent. Shares of COCA-COLA have risen more than 10 percent so far in 2017.

Symbol: PG

Relentless cost-cutting helped consumer product giant PROCTOR & GAMBLE turn in a better than expected second quarter. The maker of TIDE detergent and GILLETTE razors earned 85 cents a share, beating Wall Street's estimates of 78 cents. While net sales were flat at $16.08 billion, organic sales, which strip out the effect of acquisitions and fluctuating foreign exchange rates, rose some 2 percent.

Organic sales were boosted by a 5 percent rise in sales in its beauty segment, which sells brands like OLAY, and the homecare segment, which sells brands like FEBREZE. The Company has been cutting costs by discontinuing unprofitable brands and eliminating some general administrative expenses. During the quarter, PG reiterated it is strongly opposed to activist investor Nelson Peltz and his TRIAN PARTNERS group gaining a seat on the board of directors. We view Mr. Peltz' interest in PG to be a positive catalyst for the stock price, putting pressure on the board to improve profits. Through the first 7 months of the year, PG has risen 8 percent for investors.

Symbol: DEO

Shares of DIAGEO surged to a new 3-year high last week after reporting a 4 percent revenue gain in its latest earnings report, raised its dividend 5 percent, and announced a $2 billion share buyback plan. Thanks to solid growth, inside the U.S. and overseas, the maker of Johnnie Walker Scotch and Smirnoff Vodka had operating profits which beat Wall Street's expectations. The Company also lifted its profitability targets.

DEO's operating profits for the full fiscal year, which ended on June 30th, were $4.72 billion, higher than expectations and 25 percent higher than in 2016. DIAGEO's Latin America net sales increased 9 percent, sales of spirits in Africa were up 5.4 percent, and Asian Pacific net sales were up 3.4 percent. CEO Ivan Menezes said he was pleased with the improvement in organic net sales and operating profits in the U.S. and India. Shares of DIAGEO have gained more than 27 percent for investors so far in 2017.

Symbol: MRK

It was another earnings beat for MERCK. MRK reported earnings per share of $1.01, far higher than analysts' projections of 87 cents. Revenues were $9.93 billion, also ahead of Wall Street's forecast. MERCK continues to ramp up its manufacturing operations while, at the same time, filling product orders for its three top medicine franchises, KEYTRUDA, JANUVIA and ZEPATIER for hepatitis C.

KEYTRUDA has fast become the star of MRK's medical portfolio. The treatment brought in sales of $881 million in the second quarter of 2017, up 51 percent sequentially and 180 percent year over year. MERCK maintained its 2017 guidance but is RAISING ITS SALES OUTLOOK. The Company expects adjusted earnings in the range of $3.76 to $3.88. Shares of MRK are 7 percent higher so far this year.