HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ September 18, 2017

How did the Equifax data breach happen?

How could this happen? Other than how to protect themselves that's the question on everyone's mind about a security breach that could put as many as 143 million Americans at financial risk for the rest of their lives.

On Tuesday, credit reporting company Equifax told USA TODAY the breach was due to an Apache Struts vulnerability. Apache Struts is free, open-source software used to create Java web applications. Several vulnerabilities have been reported, all since patched, but Equifax has not said which one was involved in this breach.

If it was due to an older vulnerability, may experts believe Equifax should have been aware of it and patched the flaw, as such patches are quickly made available.

If it was a new and unknown flaw, it was what is known in the security world as a zero-day, a confusing term that stems from a count of how long a vulnerability has been known and how long the vendor has had to correct it. A zero-day means it's zero days from when anyone knew about it, so no one's fixed it.

Zero-days are worth a large amount of money and can be sold to hackers, to governments and to the companies whose software they are based on. There is an entire ecosystem of zero-day brokers who buy and sell them. Prices range from $20,000 to as much as $1 million. It's impossible to know how much the vulnerability used in the Equifax breach would be worth without knowing what, exactly, it was. But using a zero-day to get into Equifax seems “an unlikely scenario,” according to Weston Henry, lead security analyst at SiteLock, a website security company. And as a side note, while it might seem odd that a large corporation would run on on “free, open source” software, it’s actually very common and considered safe.

Click here to read more

This is a very significant breach by Equifax. A management shake up should take place. - Drew

Equifax data breach and credit freeze: Beware these 3 scams

As if an Equifax data breach affecting more than 140 million customers wasn't unsettling enough, consumers must be doubly vigilant following news of the massive mishap, experts warn. Even if you were wise enough to put an immediate fraud alert or credit freeze on your credit files, con artists are likely to go into hyperdrive finding new ways to take advantage of the hack and the publicity surrounding it.

"Don't panic. But be vigilant," said Susan Grant, director of consumer protection and privacy at the Consumer Federation of America. "With this breach, criminals have everything they need to victimize you."

Here are three cons that experts believe will become prevalent in the aftermath of the Equifax (EFX) data breach.

Imposter scams (even after you've initiated a credit freeze)

The Federal Trade Commission warned Thursday that it expected a new wave of imposter scams, with con artists posing as representatives of Equifax "calling to verify your account information." Given that Equifax is providing free credit monitoring and credit freezes in wake of its data breach, the call may sound legitimate, the agency warned. But don't ever provide any privy information over the phone.

The purpose of this con is to get you to provide private information – including some of the information that was leaked in the breach – to a caller or via email. Even if your information was leaked, not all fraudsters are likely to have access to it.

Click here to read more

This breach is very serious. Beware of scams, identity theft and phishing emails or calls that could put your credit at risk—Drew

QUOTE OF THE WEEK

"The secret of business is to know something that nobody else knows.”

- Aristotle Onassis

Taking a comprehensive look at the overall current stock market

Taking a comprehensive look at the overall current stock market, you can see the chart below representing eight major indices and their returns through the week ending September 15, 2017. In a truly diversified portfolio, the portfolio's total return is determined by the performance of all of the individual positions in combination – not individually.

So, understanding the combined overall performance of the indices below, simply average the 8 indices (excluding the BofA Merrill Lynch US High Yield Master II Index) to get a better overall picture of the market. The combined average of all 8 indices is 15.06% year to date.

Market Perspectives (through 9/11/2017)

60/40 Allocation: 8.46 % YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 11.68% YTD **Barclays Agg:** 3.64% YTD

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
MSCI All-Country World Index (ACWI)*	958.15	11.38	1.20%	23.32	2.49%	139.95	17.10%
Dow Jones Industrial Average	22268.34	470.55	2.16%	269.35	1.22%	2505.74	12.68%
S&P 500 Index	2500.23	38.80	1.58%	35.62	1.45%	261.40	11.68%
Nasdaq Composite Index	6448.47	88.28	1.39%	115.46	1.82%	1065.35	19.79%
S&P MidCap 400 Index	1753.91	34.82	2.03%	32.11	1.86%	93.33	5.62%
Russell 2000 Index	1431.71	32.28	2.31%	48.47	3.50%	74.58	5.50%
MSCI EAFE Index (EFA)	68.06	0.55	0.81%	1.68	2.53%	10.33	17.89%
MSCI Emerging Markets Index (EEM)	45.59	0.70	1.56%	2.18	5.02%	10.58	30.22%
Markit iBoxx USD Liquid High Yield Index*	267.67	0.49	0.18%	2.43	0.92%	14.54	5.74%

Above returns include dividends
Data Source: Investors FastTrack

Term of the Week:

Private Equity

Private equity is capital that is not noted on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity. Institutional and retail investors provide the capital for private equity, and the capital can be utilized to fund new technology, make acquisitions, expand working capital, and to bolster and solidify a balance sheet.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: US, developed international, and emerging market equities all posted weekly gains, shrugging off a terrorist attack in London and another North Korean missile launch on Friday. Among domestic equity sectors, Energy and Financial stocks posted the strongest weekly gains, while safe-haven Utilities were the sole sector in the red.

Fixed Income: The benchmark 10-Year US Treasury Note yield surged higher on tax reform speculation, up from just above 2% last week to 2.2% by Friday. High yield bond spreads tightened from 3.88% to 3.74%. The Moody's US speculative-grade trailing-twelve-month default rate declined to 3.4% in August, down from 3.6% in July. High yield bond mutual funds and ETFs reported slight outflows of $96 million in the weekly period ended September 6th.

Commodities: The impact of Hurricane Irma was less than anticipated, sending oil prices higher in weekly trading. A potential extension of the OPEC production cuts, discussed between Saudi Arabia and Venezuela, also gave oil prices a boost. US West Texas Intermediate closed out the week just under $50 a barrel.

WEEKLY ECONOMIC SUMMARY

Inflation returns? Consumer prices rose in August at their fastest pace in seven months, up 0.4% month-over-month, a 1.9% year-over-year reading. Hurricane Harvey had some impact on energy prices, which were up 2.8% with a 6.3% rise in gasoline prices; however, excluding food and energy inflation was still up 0.2% for the month. Producer price data was less indicative of inflationary pressures, up 0.2% month-over-month, slightly below consensus estimates. The data was enough to shift expectations for a Fed rate hike in December, which were below 40% the prior week but now stand around 58%.

Harvey weighs on retail sales: Hurricane Harvey took the blame for soft August retail sales data, down -0.2% for the month, but couldn't account for downward revisions to July and June data. Retail sales have been flat or down during four out of eight months thus far in 2017 despite solid jobs growth and slow-yet-steady wage increases.

Eurozone wages surge in Q2: Eurozone wages grew at their fastest rate in two years during the second quarter, up 2%. While the wage growth has yet to spur the price inflation that the European Central Bank is looking for, the strong data could put additional pressures for the ECB to begin tapering its aggressive stimulus program. An announcement regarding the Quantitative Easing program is widely expected during the ECB's October meeting.

Current Model Allocations

Last Week's Manager Moves

HIM #22 – Sold 100% Fund on 9/12

HIM #3 —Bought 14% of ProFundon 9/11

HIM # 14– Bought 100% Fund on 9/11: Sold 25% Fund on 9/12; Bought 25% Fund on 9/13; Sold 100% Fund and bought 75% Fund on 9/15

HIM # 10 — Sold SPLS on 9/13: Bought M and rebalanced model on 9/15

Low Risk

HIM #7	100% short and intermediate-term treasury bonds
HIM #2	25% municipal bonds/75% municipal bond mutual fund
HIM #1	15% high yield/85% high-yield Mutual fund
HIM #6	10% short duration/75%high yield/10% strat inc/5% deb
HIM #3	29% convertibles /29% dividend equities/14% powershares 14% utilities/14% Fund
HIM #20	95% high yield/ 5% CASH
HIM #19	50% MBS/50% real estate mutual fund
HIM #23	100% high yield

Moderate Risk

HIM #2	100% long treasuries
HIM #9	20% long S&P /80% alternative equity mutual fund
HIM #8	100% QQQ
HIM #22	100% CASH
HIM #14	50% long treasuries/ 50% CASH
HIM #10	98% invested, 2% cash
HIM #15	100% invested
HIM #11	80% (16) stocks/20% cash
HIM #21	25% long real estate/75% real estate mutual fund

Summary

In utilizing an approach that seeks to limit volatility, it is important to keep perspective of the activity in multiple asset classes. At Horter Investment Management we seek to achieve lower risk with higher returns. More specifically, we seek to achieve superior risk-adjusted returns over a full market cycle to a traditional 60% equities / 40% bonds asset allocation. We do this by implementing global mandates of several tactical managers within different risk buckets.

For those investors who are unwilling to stomach anything more than minimal downside risk, our goal is to provide a satisfying return over a full market cycle compared to the Barclays Aggregate Bond Index.

At Horter Investment Management we realize how confusing the financial markets can be. It is important to keep our clients up-to-date on what it all means, especially with how it relates to our private wealth managers and their models.

We are now in year nine of the most recent bull market, one of the longest bull markets in U.S. history. At this late stage of the market cycle, it is extremely common for hedged managers to underperform, as they are seeking to limit risk. While none of us know when a market correction will come, even though the movement and volatility sure are starting to act like a correction, our managers have been hired based on our belief that they can accomplish a satisfying return over a full market cycle, -- while limiting risk in comparison to a traditional asset allocation approach.

At Horter we continue to monitor all of the markets and how our managers are actively managing their portfolios. We remind you

Chart courtesy of StockCharts.com. Commentary and opinions are those of Hanlon Investment Management.

Chart of the Week:

The Chart of the Week shows S&P 500 index from Friday, September 8th through midday Thursday, September 14th. The chart shows how since Friday of the previous week, the S&P 500 gained 1.4%, through midday Thursday, a strong weekly showing so far. The S&P 500 also pegged an "all-time" high on Wednesday and it looks like the uptrend is once again firmly in gear.

National Headquarters | 11726 Seven Gables Road | Symmes Township | Cincinnati | OH | 45249

P: (513) 984-9933 | F: (513) 984-5219