HORTER INVESTMENT MANAGEMENT, LLC

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Gundlach's Forecast for 2018

Emerging markets and commodities present the best investment opportunities for this year, according to Jeffrey Gundlach. Those to avoid include the S&P 500, which he claims will show a loss for 2018. His larger warning was that most of the good news on the economic front is already priced into the capital markets.

Gundlach is the founder and chief investment officer of Los Angeles-based DoubleLine Capital, a leading provider of fixed-income mutual funds and ETFs. He spoke to investors via a conference call on January 9. Slides from that presentation are available here. This webinar was his annual forecast for the global markets and economies for 2018.

Before we look at his 2018 predictions, let's review his forecasts from a year ago. His highest conviction forecast was that investors should diversify globally. The S&P 500 (SPY) returned 21.7%, but the MSCI world index ex-U.S. (ACWI) returned 24.4%, so Gundlach's prediction was correct.

Gundlach predicted that the Trump presidency would correspond with better-than-2% GDP growth and that there would not be a recession. Both of those predictions were correct – GDP grew 2.48% through the first three quarters of last year (Q4 data is not yet available).

He also correctly predicted moderately higher inflation. In 2016, inflation was 1.26%, but in 2017 it rose to 2.13%.

He forecast that the German bund rate would increase from its level of 25 basis points a year ago. Yesterday, it was 0.42%.

He predicted two Fed rate hikes and a 50% probability of a third increase. In 2017, the Fed raised rates three times, by 25 basis points each.

The benchmark 10-year Treasury yield was to increase by the end of the year, according to Gundlach. It went down three basis points in 2017 (but his prediction would have been correct using the next-to-last day of 2017).

Gundlach was bullish on India and Japan, but bearish on Mexico and Europe. India was up 36.08% (INDA); Japan was up 24.27% (EWJ); Mexico was up 14.5% (EWW); and Europe was up 24.86% (IEV).

With this strong record of accurate predictions, let's look at Gundlach's forecasts for 2018.

Global economies

Markets are "levitating" as if from a magical source, Gundlach said, because of quantitative easing (QE). But things are changing, he argued, as central banks are, or will soon, be tightening monetary policies.

Global markets have been characterized by strong economic and market performance on an absolute basis and relative to expectations.

"What's obvious is obviously priced in," Gundlach said. He warned investors not to expect strong performance based on strong economic data or the absence of a recession, because those likelihoods are already incorporated into market prices.

Every single country – even Brazil, which has been in a major recession – is growing and will continue to do so for at least the next two quarters, Gundlach said. PMIs across the globe "look pretty good," he said, except for a couple of countries, including South Korea, which are slightly below 50. The Citigroup economic surprise index looks particularly strong in the U.S. and at a historically high level globally.

But even the South Korean market has gone "vertical" (up around 25%) despite the rhetoric from North Korea, according to Gundlach.

Click here to read more.

If the Stock Market winds up down for 2018 according to Gundlach, how will Tactical Portfolio Management possibly help? —Drew

QUOTE OF THE WEEK

"A happy life is one spent learning, earning, and yearning."

- Lillian Gish

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 January 12, 2018. 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 7 indices to get a better overall picture of the market. The combined average of all 7 indices is 2.21%.

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
S&P 500 Index	2786.24	43.09	1.57%	122.13	4.58%	112.63	4.21%
Dow Jones Industrial Average Index	25803.2	507.32	2.01%	1298.39	5.30%	1083.97	4.39%
Nasdaq Composite Index	7261.06	124.5	1.74%	398.74	5.81%	357.67	5.18%
60/40 Portfolio (BAGPX)	13.43	0.11	0.83%	0.45	3.47%	0.27	2.05%
US Aggregate Bond Index	2036.17	-3.8	-0.19%	-5.04	-0.25%	-4.31	-0.21%
Markit iBoxx USD Liquid High Yield Index	270.88	-0.42	-0.15%	1.87	0.70%	1.75	0.65%
20+ Year Treasury Bond (TLT)	124.52	-1.19	-0.95%	-1.59	-1.26%	-0.97	-0.77%

Data Source: Investors FastTrack, Yahoo Finance

Term of the Week:

Internal Rate of Return—IRR

Internal rate of return (IRR) is a metric used in capital budgeting measuring the profitability of potential investments. Internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Equity markets have continued their exceptionally strong start to the new year, with all three major U.S. market indices setting fresh closing highs with gains of 1.5% or greater for the week. Energy was among the top performing sectors with Industrials joining the party on fresh optimism for this earnings season. Interest rate sensitive stocks taking another hit is becoming a recurring theme as Real-Estate and Utility stocks remain laggards. Global growth and low inflation have powered International markets higher with solid gains for the week.

Fixed Income: The steadily rising 10-Year US Treasury Note yield spiked mid-week to nearly 2.6%, its highest mark since March, after a report indicated China might slow or halt purchases of US Treasuries. China refuted this report as "fake news" and the benchmark yield ended the week around 2.55%. Choppy trading in the high yield market saw spreads widen modestly to around 3.45% over Treasuries, while high yield mutual funds reported net inflows of $2.651 billion for the week.

Commodities: US benchmark West Texas Intermediate (WTI) and international Brent Crude prices continued to soar to begin this year as WTI finished in the mid-$64 range and Brent knocking on the door of $70 per barrel, despite a late week increase in the Baker-Hughes rig count.

WEEKLY ECONOMIC SUMMARY

Jobless Claims: Jobless claims increased by 11,000 this week to 261,000, the highest level since mid-September. This number will be closely watched going forward, but the increase is most-likely due to the loss in temporary employment that was added for seasonal work during the 2017 holiday season. The labor market continues to be in its best shape in many years.

Consumer Price Index (CPI): Core CPI (CPI less food and energy) came in at 1.8% for the month of December, slightly higher than consensus expectations of 1.7%. This is reflecting strength in housing costs and medical costs stemming from a rise in prescription drug costs. Headline CPI was in-line with consensus estimates, growing 0.1% for the month and 2.1% for the year. Announced wage hikes as a result of tax cuts could see this number continue to increase in 2018.

Fed Balance Sheet: The US Federal Reserve (the "Fed") released its balance sheet levels showing that it actually increased slightly for the week to $4.446 trillion from its last reading of $4.444T. This amount is only down $10 billion since the Fed started allowing Treasury and mortgage-backed securities to run-off starting back in October. This is an indication of just how carefully the Fed is unwinding the giant asset buildup after years of monetary stimulus.

Current Model Allocations

Last Week's Manager Moves

HIM #3— Bought 14% Fund 1/10; Sold 14% Fund to CASH on 1/12

HIM #22—Sold 100% to CASH on 1/10/

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 #3	43% convertibles /29% dividend equities/14% NASDAQ 100/ 14% CASH
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% mid-cap
HIM #9	20% long S&P /80% alternative equity mutual fund
HIM #8	100% Trust
HIM #22	100% CASH
HIM #10	98% invested, 2% cash
HIM #15	100% invested
HIM #11	75% (15) stocks/25% 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 there are opportunities to consider with all of our managers. Hopefully this recent market commentary is helpful and thanks for your continued trust and loyalty.

Chart created by Hanlon Research. Commentary and opinions are those of Hanlon Investment Management.

Chart of the Week:

The Chart of the Week shows West Texas Light Intermediate Crude Oil ($WTIC) challenging a longer-term resistance level at the $60-$63 level. Oil has built a long-term base, after being decimated back in 2016 and has been rallying recently, though upside may be capped by additional production by US shale drillers.

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