HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ November 13, 2017

A Bull Market Should Make Investors Happy. This One Isn't.

One day in September, investors with fading summer tans mingled with their brokers over a three-course lunch at Cipriani in Lower Manhattan. Stocks were soaring and they swapped market tips and touted apps that allowed them to buy Bitcoin on the golf course.

But the full stomachs and fat portfolios couldn't mask a sense of unease that pervaded the gathering: that the good times could suddenly end, derailed by nuclear war, political upheaval, a sudden rise in inflation or simply from stratospheric stocks crashing down to earth.

"Investors have never felt less secure, even though we are eight years into a bull market," Mark H. Haefele, the chief investment officer in the wealth management division at the investment bank UBS, told the crowd.

Rarely has a bull market been so unloved. Since March 2009, the Standard & Poor's 500 stock index has nearly quadrupled in value. This year, not only is the index up 15 percent, but it also seems to have stopped going down at all: October was the 12th straight month that the S.&P. has logged a positive return, the first time that has happened since 1935.

Yet in most conversations about the ever-rising stock market, brokers and investment advisers say, are dominated by the question of when it will all come to an end.

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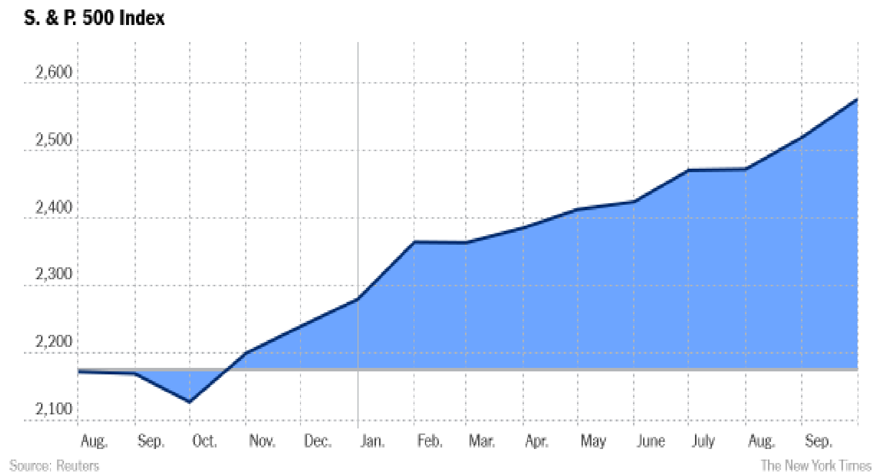
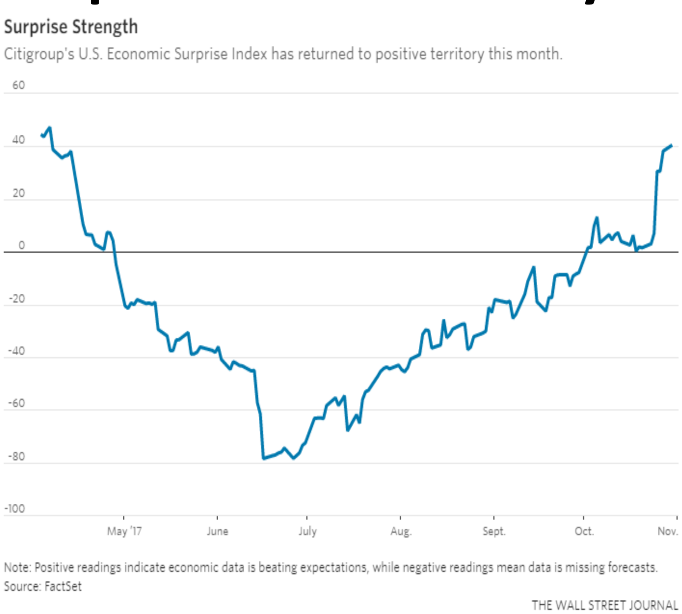


If the Stock Market is 'unloved' could it be because it is trading at high multiples and a bond market that offers little? - Drew

Surprise! The Economy Is Beating Forecasts Again



The U.S. economy is outpacing expectations for the first time since April. What that means for the stock rally is a matter of debate.

Citigroup U.S. Economic Surprise Index, a widely-used tool used to gauge how economic data matches up to expectations, has risen to its highest level since April in recent weeks. As The Wall Street Journal's Morning MoneyBeat newsletter noted Tuesday, a number of better-than-expected readings on the economy–from third-quarter gross-domestic product to manufacturing activity–helped pull the index out of negative territory in October for the first time since spring.

Analysts at PNC Asset Management Groups said the index's recovery–which indicates economic data is coming in above forecasts–is due in part to "analysts' predictions becoming too dour in the middle of the year." The recovery in global growth is also helping the index, PNC said.

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QUOTE OF THE WEEK

"A leader is one who knows the way, goes the way, and shows the way."

- John C. Maxwell

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 November 10, 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 18.83% year to date.

Market Perspectives (through 10/30/2017)

60/40 Allocation: 10.48% YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 15.34% YTD **Barclays Agg:** 3.20% 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)*	985.90	-1.46	-0.15%	10.80	1.11%	167.70	20.50%
Dow Jones Industrial Average	23422.21	-116.98	-0.50%	591.53	2.59%	3659.61	18.52%
S&P 500 Index	2582.30	-5.54	-0.21%	31.66	1.24%	343.47	15.34%
Nasdaq Composite Index	6750.94	-13.49	-0.20%	163.69	2.48%	1367.82	25.41%
S&P MidCap 400 Index	1825.75	-10.23	-0.56%	7.17	0.39%	165.17	9.95%
Russell 2000 Index	1475.28	-19.63	-1.31%	-32.73	-2.17%	118.15	8.71%
MSCI EAFE Index (EFA)	69.28	-0.52	-0.74%	0.18	0.26%	11.55	20.01%
MSCI Emerging Markets Index (EEM)	46.29	-0.05	-0.11%	0.24	0.52%	11.28	32.22%
Markit iBoxx USD Liquid High Yield Index*	267.13	-2.33	-0.86%	-2.35	-0.87%	14.00	5.53%

**Above returns include dividends*
Data Source: Investors FastTrack

Term of the Week:

Effective Tax Rate

The effective tax rate is the average rate at which an individual or corporation is taxed. The effective tax rate for individuals is the average rate at which their earned income is taxed, and the effective tax rate for a corporation is the average rate at which its pre-tax profits are taxed.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Global equities dipped to end the week lower across the board. Among US equity sectors, Financials sold off sharply as Congress debated the proposed tax reform bill while Energy stocks posted strong performance once again as oil prices continued to appreciate. Domestic Small-Caps came dangerously close to breaching the 50-day moving average during weekly trading, causing some concern that the broad-based equity rally could be taking a breather.

Fixed Income: The benchmark 10-Year US Treasury Note yield ended the week marginally lower at 2.33%. High yield bonds fell sharply, with the ETFs HYG and JNK seeing abnormally high volume. The selloff was not directly attributable to any one cause, but rather a culmination of weakness from Telecom-related bonds, concerns over the corporate interest deduction limits in the tax bill, and uncertainty over changes in the Federal Reserve's leadership and policy direction. High yield bond spreads shot up from 3.52% to 3.79% as investors rushed to the exits.

Commodities: Oil prices held their recent gains for yet another week with US West Texas Intermediate (WTI) trading just under $57 a barrel and international benchmark Brent Crude rising above $63. An unprecedented crackdown on Saudi corruption, along with a potential debt default from Venezuela helped to push prices higher. Domestic crude inventories rose by 2.2 million barrels in the week ended November 3rd. US natural gas prices continued to rise as temperatures fell, now up almost 10% since the start of November.

WEEKLY ECONOMIC SUMMARY

Tax bill in flux: The House and Senate are trying to reconcile their respective versions of the tax reform bill, with the major issue of contention centered around the proposed corporate tax cut, which would fall from 35% to 20%. The House is in favor of an immediate reduction while the Senate proposed a delay until 2019.

Trump makes a deal: President Trump took advantage of his visit to China to engage in his favorite pastime of deal making. The trade package, reportedly valued at $250 billion, aims to expand US exports of liquified natural gas, oil, beef, and cotton.

Jobs data still strong: The September Job Openings and Labor Turnover Survey (JOLTS) revealed continued strength, with 6.093 million openings reported. Weekly jobs data was similarly robust, with initial jobless claims up 10,000 to 239,000, and the four-week moving average at its lowest level since March of 1973.

Current Model Allocations

Last Week's Manager Moves

HIM #22 — Sold 100% S&P 500 to CASH on 11/6

HIM #3—Bought 14.2% Fund on 11/6; Sold 14.2% Fund and bought 14.2% Fund on 11/9

HIM #14 – Sold 50% Fund on 11/6; Bought 25% Fund on 11/8

HIM #20 — Sold 24% Fund and 24% Fund to CASH on 11/6; Sold 10% Fund, 10% Fund, 9% Fund, 9% Fund , 9% Fund and bought 10% SHY and 30% Fund on 11/8; Bough 10% Fund on 11/9

Low Risk

HIM #7	60% CASH/40% 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% income funds/ 14% Fund
HIM #20	50% high yield/ 50% CASH
HIM #19	50% MBS/50% real estate mutual fund
HIM #23	100% high yield

Moderate Risk

HIM #2	34% CASH/66% mid-cap
HIM #9	20% long S&P /80% alternative equi ty mutual fund
HIM #8	100% QQQ
HIM #22	100% CASH
HIM #14	75% long treasury/ 25% CASH
HIM #10	98% invested, 2% cash
HIM #15	100% invested
HIM #11	65% (13) stocks/35% 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 courtesy of StockCharts.com. Commentary and opinions are those of Hanlon Investment Management.

Chart of the Week:

The Chart of the Week shows the SPDR Barclays High Yield Bond ETF (JNK) which is having a slight correction, not uncommon after having had such a strong uptrend.

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