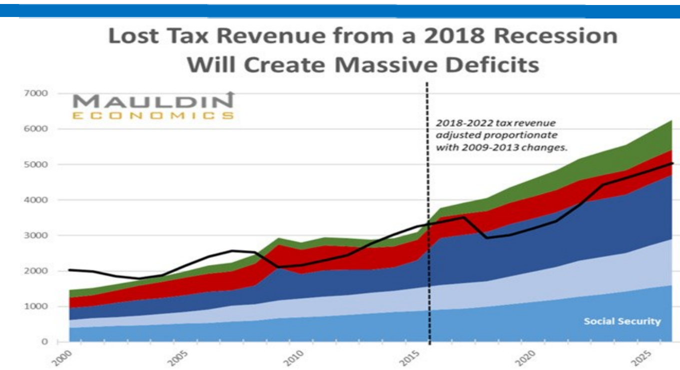
HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary   http://horterinvestment.com/   July 9, 2018

Unfunded Promises



In describing the global debt train wreck these last few weeks, I've discovered a common problem. Many of us define "debt" way too narrowly.

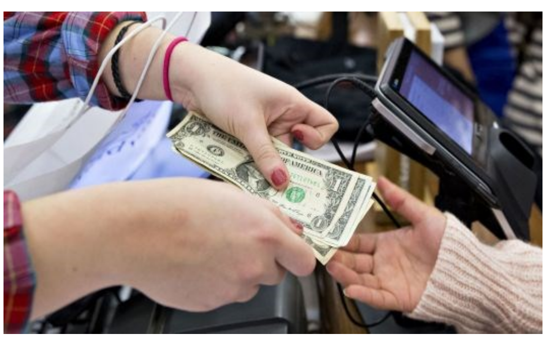
A debt occurs when you receive something *now* in exchange for a promise to give something back *later*. It doesn't have to be cash. If you borrow your neighbor's lawn mower and promise to return it next Tuesday, that's a kind of debt. You receive something (use of the lawn mower) and agree to repayment terms – in this case, your promise to return it on time and in working order.

One reason you try to get that lawnmower back on time and in the proper condition is that you might want to borrow it again in the future. In the same way that not paying your bank debt will make it difficult to get a bank loan in the future, not returning that lawnmower may make your neighbor a tad bit reluctant to lend it again.

Debt can be less specific, too. Maybe, while taking your family on a beach vacation, you notice a wedding taking place. Your 12-year-old daughter goes crazy about how romantic it is. In a moment of whimsy, you tell her you will pay for her tropical island beach wedding when she finds the right guy. That "debt," made as a loving father to delight your daughter, gets seared into her brain. A decade later, she does find Mr. Right, and reminds you of your offer. Is it a legally enforceable debt? Probably not, but it's at least a (now) moral obligation. You'll either pay up or face unpleasant consequences. What is that, if not a debt?

These are small examples of "unfunded liabilities." They're non-specific and the other party may never demand payment… but they might. And if you haven't prepared for that possibility, you may be in the same kind of trouble the US government will face in a few years. Click here to read more

The Risk of a Global Recession has 'Significantly Increased,' Strategist Warns



A slew of global developments are convening to threaten economic growth, according to one investment manager, who believes that the risks of a recession next year have now "significantly increased."

Global growth stood at 3.8 percent in 2017 and it is set to add another 3.9 percent this year and the next, according to forecasts by the International Monetary Fund (IMF). But, the escalation of trade tensions, coupled with other factors, could reverse this trend, Beat Wittmann, a partner at financial consultancy Porta Advisors, told CNBC's "Squawk Box Europe."

"I think the risk of a global recession in 2019 has significantly increased," he said.

"We have normalization of monetary conditions, that's one thing, so we are in a late stage environment. Then we have this escalation in tariffs and trade … We have things like Brexit. All of these things lead to losses of investment confidence and I mean real economic investment confidence," Wiitman warned.

Central banks have started ending to their crisis-era accommodative policies, with the U.S. Federal Reserve, in particular, increasing interest rates — which are set to translate into higher mortgage payouts and less available income for consumers.

At the same time, the U.S. has imposed new tariffs against global trade partners and these nations have retaliated. The trade tensions are set to continue with Europe currently preparing for new duties on its cars. IMF Managing Director Christine Lagarde told CNBC last month that the trade tensions are the "biggest" risk for economic growth in the euro zone.

Click here to read more

QUOTE OF THE WEEK

"People only see what they are prepared to see."

-Ralph Waldo Emerson

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 July 9, 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 6 indices to get a better overall picture of the market. The combined average of all 6 indices is 1.69% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
S&P 500 Index	2759.82	1.58%	-0.48%	2.55%
Dow Jones Industrial Average Index	24456.48	0.76%	-2.74%	-1.06%
Nasdaq Composite Index	7688.39	2.37%	-0.01%	11.37%
60/40 Portfolio (BAGPX)	13.11	0.53%	-1.50%	1.50%
US Aggregate Bond Index	2018.09	0.27%	0.89%	-1.38%
20+ Year Treasury Bond (TLT)	122.75	1.29%	3.38%	-2.84%

Data Source: Investors FastTrack, Yahoo Finance

Term of the Week:

Time Value of Money (TVM)

The time value of money (TVM) is the concept that money available at the present time is worth more than the identical sum in the future due to its potential earning capacity. This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received. TVM is also sometimes referred to as present discounted value.

Dow Jones - Week Ending

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WEEKLY MARKET SUMMARY

Global Equities: Equity markets seemed to relish the break, as the second part of a week cut in half by the Independence Day holiday led to a decent move higher for all the major indices. The Nasdaq Composite led the way, gaining around 2.3%, while the S&P 500 and the Dow Jones Industrial Average gained nearly 1.6% and .90%, respectively. The Healthcare sector outperformed all major S&P 500 sectors, as the Healthcare SPDR Select Sector ETF (XLV) was up over 3%, while the Energy sector and its SPDR Select Sector ETF (XLE) lagged, mostly unchanged for the week. International equities managed to stop the bleeding for the time-being, as the iShares MSCI Emerging Markets Index ETF (EEM) was marginally higher, and the International Developed market iShares MSCI EAFE Index Fund ETF (EFA) gained around 1%.

Fixed Income: After spiking near 2.88% prior to the holiday, the yield on the benchmark US 10-Year Treasury Note ended the week lower, near 2.82%. Domestic high yield bond spreads, too, looked like they were poised to continue the prior week's new issuance-led widening early in the week, but narrowed after the holiday to be relatively unchanged. The iShares iBoxx High Yield Corporate Bond ETF gained around .3% for the week, while Lipper recorded high yield bond mutual funds and ETF outflows of $1.729 billion during the weekly period ended July 4th.

Commodities: With trade war tariffs going into effect, oil prices were held in check as global politics offset supply constraints and logistical complications. The American benchmark West Texas Intermediate (WTI) pulled back from the prior Friday's multi-year high, to close near $73.80 per barrel. Reuters reports that the Saudis had boosted oil output by more than previously expected caused Brent Crude to come down even more, to close the week near $77 per barrel. Natural Gas prices declined steadily during the week, to close near $2.85/ MMBtu.

WEEKLY ECONOMIC SUMMARY

ISM Manufacturing: The Institute for Supply Management's (ISM) survey of the manufacturing sector registered above the consensus estimate, at 60.2 versus 58.5 for June. While demand and new orders have remained strong, negative supply chain issues have caused the supplier deliveries portion to jump up significantly, and perhaps counterintuitively, contributed positively to the headline index, as well. The trade war has continued to weigh on the minds of those surveyed, as ISM Chair Timothy R. Fiore reported "Respondents are overwhelmingly concerned about how tariff related activity is and will continue to affect their business."

Federal Reserve (Fed) Minutes: The Fed minutes from the last meeting, during which it was decided to raise the benchmark Fed Funds rate .25%, cited increasing consumer spending and the tightening labor market in the justification in signaling a higher likelihood for an additional rate hike this year. The Fed also indicated confidence in maintaining its inflation target, but expressed concern of the flattening yield curve and even mentioned trade policy and its potential for negative effects on the economy.

Employment Situation: The month-on-month (MoM) increase of 213,000 to nonfarm payrolls was stronger than the consensus estimate of 190,000 for June, while May's figure was revised higher to 244,000 from 223,000. The robust employment environment was punctuated with a substantial increase in the amount of unemployed who are actively looking for work, thereby lifting the labor participation rate and the unemployment rate back to 4%. The increase in job seekers may help relieve some of the wage pressures adding to inflation and the Fed's urgency to raise interest rates.

Last Week's Manager Moves—

HIM #20 —Reduced Cash from 36% to 2% and bought 14% high yield bond 10% short term high yield bond 10% high yield bond

HIM #10 —Sold 90% Short term treasuries, moved to .16% cash 99.84% equities

Current Model Allocations

Model Allocations

HIM #23 —100% Short term bond funds

HIM #24 —12.50% Cash 25% Short term treasury 62.5% ETFs

HIM #22 —100% fund

HIM #8 —100% trust

Other Managers

HIM #12 —100% treasury bond

HIM #9 —80% alternative equity mutual fund 20% dividend growth fund

HIM #1 —75% fund 15% fund 10% fund

HIM #21 —25 % Cash 75% real estate mutual fund

HIM #19 —50% real estate mutual fund 50% fund

HIM #11 — 90% Equity 10% Cash

HIM #10 —.16% Cash 99.84% Equities (48equities)

HIM #15 —100% Invested

HIM #20 —2% Cash 10% short term high yield 10% high yield 14% high yield corporate bond 15% ultra short bond 15% floating rate bond 17% high yield bond 17% high yield corporate bond

Summary

In utilizing an approach that seeks to limit volatility, it is important to keep perspective of the activity in multiple asset classes. 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 of the Week:
The Chart of the Week shows the S&P 500 Index ($SPX). Despite the recent volatility in the market, the chart of the S&P 500 is still technically constructive for equities. The S&P 500 made a double bottom in February and early April **(orange line)**, since then it has made a series of higher highs and higher lows forming an uptrend **(purple line)**. Also, the S&P 500 has held its 50-day moving average.

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