HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary | http://horterinvestment.com/ | November 5, 2018

B. Riley FBR's Art Hogan: China Trade Tensions May Send Stocks on Another Downturn

The S&P 500 Index may be coming off its best week since March 9, but long-time bull Art Hogan doesn't believe the market's wild swings are safely in the past.

B. Riley FBR's chief market strategist predicts stocks will retest to their October 29 correction lows, he recently told CNBC.

"We are going to see one more test before we escape back up into bullish territory — probably the middle of November and into December," he said Friday on CNBC's "Trading Nation."

He expected U.S.-China trade tensions, which whipsawed stocks on Friday, will be the overwhelming factor in the next leg down. President Donald Trump is expected to meet Chinese President Xi Jingping at the G20 Summit in Argentina next month, amid conflicting statements from the administration on whether progress had been made between the world's two largest economies.

"The most difficult headwind for this market to get over is China," Hogan said, making clear that his case is contingent on how long the trade war lasts — and whether it intensifies.

"The most important thing is to get some clear and concise constructive news on China," Hogan added.

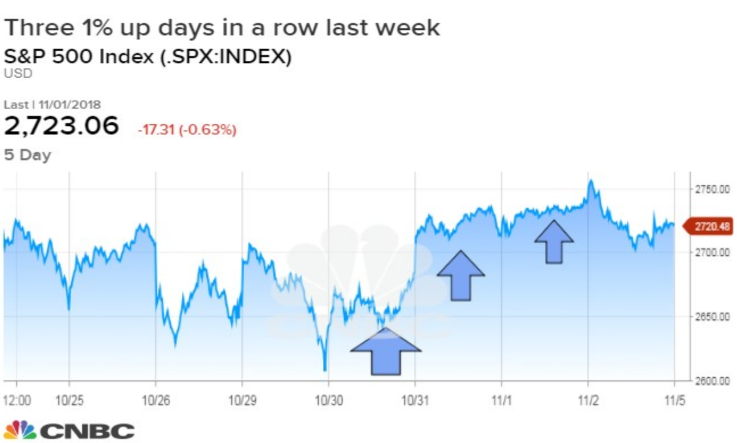
Hogan had expected that a deal would be reached around the midterms. But with the key elections set for this Tuesday, Nov. 6, he acknowledges the probability is extremely low.

Click here to read more.

The S&P 500 Faces Big Chart Test This Week That Could Determine Whether Year-End Rebound is Ahead

The stock market passed a crucial test last week, and now faces another one.

The S&P 500 found a strong bounce where it had to — preserving a two-and-a-half-year uptrend and allowing the steep October drop to be viewed, for now, as simply a swift correction in a slowing but abiding bull market.



Now, at about one percent higher from where it sits right now, the S&P 500 will confront a cluster of technical levels including its 200-day average that could define for technical traders whether this was just a bounce or something better.

Make no mistake, though, the bounce was strong, after Monday's deeper setback to a seven-month low, the S&P strung together three straight 1 percent daily gains. As Instinet technical strategist Frank Cappelleri pointed out mid-week, this had only happened three prior times since 2010 — each at important market lows (in 2011, February 2016 and June 2016).

click here to read more.

QUOTE OF THE WEEK

"You always admire what you really don't understand."

- Blaise Pascal

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 2, 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 12 indices to get a better overall picture of the market. The combined average of all 12 indices is -6.10% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
S&P 500 Index	2722.49	2.45%	-6.74%	3.45%
Dow Jones Industrial Average Index	25265.47	2.36%	-5.52%	4.05%
Nasdaq Composite Index	7350.27	2.66%	-8.00%	7.46%
60/40 Portfolio (BAGPX)	12.84	1.66%	-4.88%	-1.91%
US Aggregate Bond Index	1992.1	-0.19%	-1.09%	-2.65%
20+ Year Treasury Bond (TLT)	112.0	-2.60%	-2.14%	-11.35%
MSCI EAFE (EFA)	63.36	3.14%	-6.44%	-9.88%
MSCI Emerging Markets (EEM)	40.82	5.56%	-3.70%	-13.37%
France CAC Index (EWQ)	28.79	2.64%	-7.52%	-7.78%
Germany DAX Index (EWG)	27.78	3.73%	-6.50%	-15.87%
Italy Borsa Index (EWI)	25.76	3.33%	-5.85%	-15.37%
London FTSE (EWU)	32.26	3.40%	-4.87%	-9.94%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Coverage Ratio

A coverage ratio is a measure of a company's ability to service its debt and meet its financial obligations. The higher the coverage ratio, the easier it should be to make interest payments on its debt or pay dividends. The trend of coverage ratios over time is also studied by analysts and investors to ascertain the change in a company's financial position.

Past performance is not a guarantee of future results. This Update is limited to the dissemination of general information pertaining to its investment advisory services and is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock and bond markets involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice. Horter has experienced periods of underperformance in the past and may also in the future. The returns represented herein are total return inclusive of reinvesting all interest and dividends.

The above equity, bond and cash weightings are targets and may not be the exact current weightings in any particular client account. Specifically, there may be cases where accounts hold higher cash levels than stated in these target weightings. This is usually to accommodate account level activity. Furthermore, some variable annuity and variable universal life accounts may not be able to purchase the exact weightings that we are indicating above due to specific product restrictions, limitations, riders, etc. Please refer to your client accounts for more specifics or call your Horter Investment Management, LLC at (513) 984-9933.

Investment advisory services offered through Horter Investment Management, LLC, a SEC-Registered Investment Advisor. Horter Investment Management does not provide legal or tax advice. Investment Advisor Representatives of Horter Investment Management may only conduct business with residents of the states and jurisdictions in which they are properly registered or exempt from registration requirements. Insurance and annuity products are sold separately through Horter Financial Strategies, LLC. Securities transactions for Horter Investment Management clients are placed through TCA by E*TRADE, TD Ameritrade and Nationwide Advisory Solutions.

For additional information about Horter Investment Management, LLC, including fees and services, send for our disclosure statement as set forth on Form ADV from Horter Investment Management, LLC using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Global equity markets rebounded during the week, as positive earnings releases and reports of improving Sino-US relations stemmed the tide of a brutal October. All three major US equity indices were up over 2%, with the Nasdaq Composite Index leading the way by a slight margin. The beaten-down Materials sector rebounded with ebbing pessimism surrounding global growth, which led to the Select Sector Materials SPDR ETF (XLB) finishing up over 6% for the week. The defensive Utilities sector lagged all others, with its Select Sector SPDR ETF (XLU) losing .5%. International equities fared even better, as Emerging Market (EM) equities reversed course, and the iShares MSCI Emerging Markets Index Fund ETF (EEM) gaining over 5.6%.

Fixed Income: US interest rates were on the rise again, as the unwinding of the flight-to-safety saw the 10-Year US Treasury Bond yield closing back near the highs at 3.215%. High yield bond spreads over equivalent Treasury securities remained near the highs for 2018, while the iShares IBoxx High Yield Corporate Bond ETF was barely changed for the week. Lipper reported large outflows out of high yield bond funds and investment grade corporate bond funds of $1.043B and $3.753B, respectively for the week ending October 31st.

Commodities: Oil prices are remaining under pressure despite upcoming sanctions on Iran due to several factors, most notably of which, is news that several countries have been granted exceptions to the Iran sanctions, including large buyers China and India. With continued max output from the rest of the OPEC members and rising production from the US, it's likely that prices remain under pressure, yet highly contingent on political news. These factors combined to force the American West Texas Intermediate (WTI) benchmark down -7% for the week, to $62.90 per barrel, while the International Brent crude benchmark was down similarly, to $72.64 per barrel. Natural gas prices increased during the week, to $3.29/MMBtu.

WEEKLY ECONOMIC SUMMARY

Personal Income & Outlays: The US Bureau of Economic Analysis (BEA) reported a solid .4% increase for consumer spending during the month of September, and upwardly revised the release from August to .5% versus .3%. The increase in consumer spending came at the expense of saving, as the report indicated that the savings rate fell .2% while personal income only rose by .2% for the same monthly period. Personal Consumption Expenditures (PCE) and Core PCE, the favorite measure of inflation for the Federal Reserve (Fed) which excludes food & energy, were both in line with consensus estimates and the Fed's target, at 2% year-on-year (YoY).

Employment Situation: A better than expected increase of 250,000 non-farm payrolls reported by the Bureau of Labor Statistics Employment Situation for the month of October was bolstered by increases in manufacturing, construction, and business services jobs. The strong October non-farm number combined with a lower September revision and a slight increase in the participation rate to keep the unemployment rate unchanged at 3.7%. YoY average hourly earnings were in line with consensus estimates, but not yet increasing to the extent consistent with the expectation of an extremely tight labor market.

3rd Quarter Earnings: Apple Inc. (AAPL) dipped below the historic $1 trillion market capitalization value on Friday after disappointing the market with forward guidance that suggested a deceleration in top line revenue growth for the near future. The "record-breaking" $62.9B in revenue and $14.1B in profit for this most recent fiscal 4th quarter included a 29% increase in revenue for its iPhone that was mostly due to the large price increase for the flagship product. The high-growth Apple services segments that include Apple Music, iCloud, and the App Store continue to be encouraging, with YoY growth of 27% for the quarter, and should help AAPL maintain investor confidence in customers sticking within the Apple ecosystem.

Current Model Allocations

Tactical Fixed Income Model Allocations

11/02/2018

Cash—55%	Energy Limited Partnership—5%	Exchange Trade Fund—5%	Exchange Trade Fund — 5%
Treasury Bond — 10%	Convertible Bonds—10%	Exchange Trade Fund—5%	Exchange Trade Fund — 5%

Other Managers

HIM #12—	34% CASH 66% fund
HIM #9—	100% fund
HIM #1—	85% fund 5% high yield fund 5% high yield 5% high yield fund
HIM #21—	100% real estate mutual fund
HIM #19—	50% real estate mutual fund /50% CASH
HIM #23—	33.33% fund/ 33.33% fund/ 33.34% fund
HIM #22—	100% fund
HIM #25—	100% fund
HIM #3—	14.3% fund/14.3% fund/14.3% fund/14.3% high yield/14.3% dividend/14.2% utilities/14.3% CASH
HIM #8—	100% trust
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
HIM #10—	99.84% equities (48)/.16% CASH

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 finding support around the early 2018 lows and then bouncing, strongly suggesting a bottom. The US economy remains strong and we view the market setback as a healthy correction.

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

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