Weekly Market Commentary
January 17, 2017

HORTER
Investment Management, LLC

The Dow Jones Industrial Average slipped 78 points, ending the week -0.4% at 19,886. The S&P 500 Index fell 2 points, down -0.1%, to end the week at 2,275.

The Nasdaq Composite was up 1% to end the week at 5,574. The S&P MidCap 400 Index gained 0.3% to close the week at 1,687. The Russell 2000 gained 0.4%, ending the week at 1,372. The ETF "EFA", the proxy for developed international equity markets, finished the week up 0.9%. Emerging markets, as represented by the ETF "EEM", gained 2.1%.

Domestic high yield corporate bonds gained 0.2% during the week, as measured by the Bank of America Merrill Lynch US High Yield Master II Index.

US equities were mixed as fourth quarter earnings season commenced. Developed international and emerging markets got a lift from a weaker dollar and positive economic data. The yield on the 10-Year US Treasury Note was relatively unchanged at 2.4%. Oil prices declined sharply to open the week, but bounced back after Saudi Arabia announced it had reduced production to under 10 million barrels per day. The production cut is even more stringent than the agreed upon levels per the recent OPEC deal, as the oil cartel tries to establish a floor on crude prices. Meanwhile, US drillers are rushing to fill the void in capacity and ramping up shale drilling operations. Domestic daily crude production increased by 176,000 barrels to 8.95 million barrels per day. US West Texas Intermediate finished the week around $52.43 per barrel while Brent Crude ended around $55.51.

Domestic high yield bonds traded sideways, with spreads still hovering around the 4% level. High yield bond mutual funds and ETFs inflows continue to trickle in, with $564 million added in the weekly period ended January 11th. High yield bond ETFs continue to attract an increasing share of assets relative to mutual funds. The largest high yield bond ETF, iShares iBoxx $ High Yield Corporate Bond ETF (HYG), ranked as the 12th most heavily traded ETF in 2016.

In US economic news, the headline retail sales number for the holiday season seems solid at 0.6% but was actually a disappointment, coming in flat after accounting for automobiles and gasoline. Consumers may not be spending but they still remain optimistic about the economy.

The University of Michigan's Consumer Sentiment Index remains high at 98.1, down slightly from the prior month's reading of 98.2. Small business owners are also feeling extremely optimistic according to the National Federation of Independent Businesses. The small business optimism index rose to its highest level since 2004. Producer price data showed a moderate boost to inflation, up 0.3% in December.

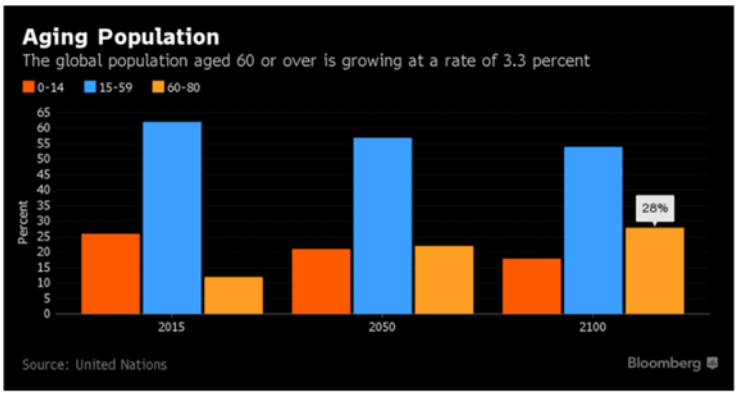
In international economic news, the World Bank issued a global growth forecast of 2.7% for 2017, up from 2.3% in 2016. The forecast suggested aggressive US spending could provide growth, while at the same time citing the risks of protectionist trade policies. In Eurozone news, Germany's economy grew at its fastest pace in five years, expanding 1.9% in 2016.

In corporate news, the big banks kicked off earnings season with strong performance. JPMorgan (JPM), Bank of America (BAC), PNC Financial Services Group (PNC), and BlackRock (BLK) all posted better-than-expected profits. Wells Fargo (WFC) missed estimates as the bank continues to deal with the fallout from its fraudulent accounts scandal.

Did You Know?

Don't Worry Bond Investors, Baby Boomers Have Got Your Back

Click to read more



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Current Model Allocations

Low Risk		
HIM Model #7	100% short and intermediate-term treasury bonds
HIM Model #2	25% municipal bonds/75% ATMSX
HIM Model #1	15% high yield/85% ATCSX
HIM Model #6	10% short duration/80% high yield/10% strategic income
HIM Model #3	15% alternative bond strategies/ 14% convertibles /43% dividend equities/14% corporate bonds 14% long treasuries
HIM Model #20	95% high yield/5% cash
HIM Model #19	50% MBS/50% ARESX

Moderate Risk	
HIM Model #12	100% mid-cap
HIM Model #9	20% long S&P /80% ATESX
HIM Model #8	98% long NASDAQ/2% cash
HIM Model #22	100% S&P 500
HIM Model #14	100% short treasuries
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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 13, 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 2.35% year to date.

Market Perspectives (through 01/13/2017)

60/40 Allocation: 1.11 % YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 1.60% YTD **Barclays Agg:** 0.37% YTD

Weekly Update for the Week Ending January 13, 2017

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
Dow Jones Global Index	333.56	1.50	0.45%	3.29	1.00%	7.51	2.30%
Dow Jones Industrial Average	19885.73	-78.07	-0.39%	-25.48	-0.13%	123.13	0.62%
S&P 500 Index	2274.64	-2.34	-0.10%	2.92	0.13%	35.81	1.60%
Nasdaq Composite Index	5574.12	53.07	0.96%	110.29	2.02%	191.00	3.55%
S&P MidCap 400 Index	1687.40	5.33	0.32%	1.35	0.08%	26.82	1.62%
Russell 2000 Index	1372.05	4.77	0.35%	-1.48	-0.11%	14.92	1.10%
MSCI EAFE Index (EFA)	59.59	0.54	0.91%	0.50	0.85%	1.86	3.22%
MSCI Emerging Markets Index (EEM)	36.68	0.74	2.06%	0.35	0.96%	1.67	4.77%
BAML US High Yield Master II Index	1186.93	1.72	0.15%	15.97	1.36%	12.62	1.07%

Above returns exclude dividends.
Data Source: Investors FastTrack

For a complete report on all the indices, we recommend that you go to www.HanlonInvest.com and click on the Financial Professionals tab, then click on Index Performance Report on the left-hand side under the Resources section.

QUOTE OF THE WEEK

"If you can't fly then run, if you can't run then walk, if you can't walk then crawl, but whatever you do, you have to keep moving forward."

- Dr. Martin Luther King Jr.

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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.

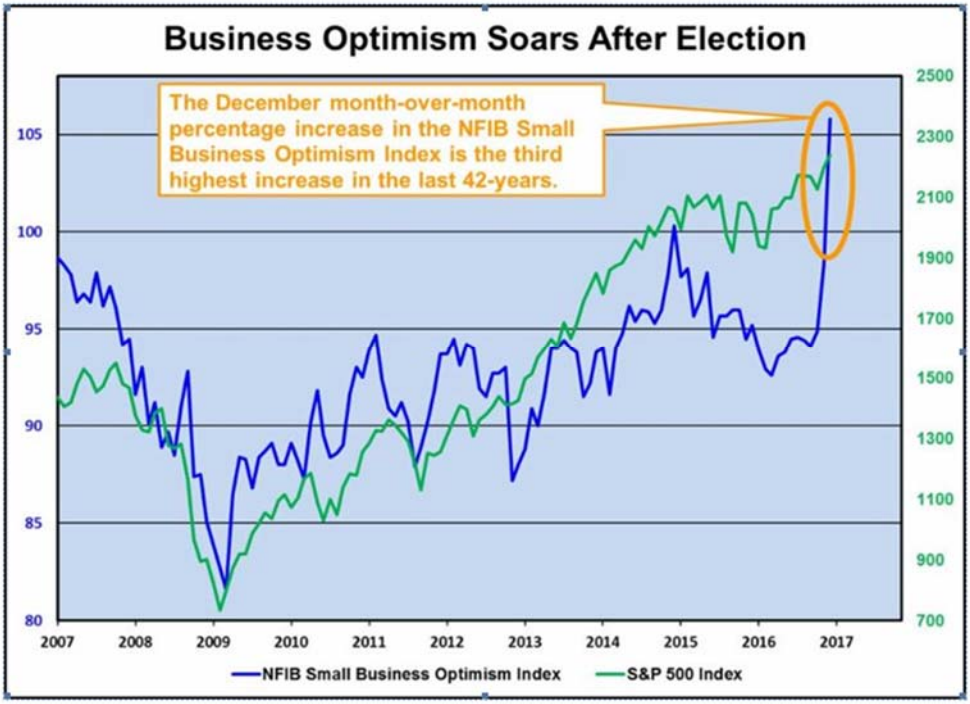
At Horter Investment Management we realize how confusing the financial markets can be. It is important to keep our clients up-to-date on what it all means, especially with how it relates to our private wealth managers and their models.

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 of the Week:

The chart of the week shows the National Federation of Independent Business (NFIB) Small Business Optimism Index in relation to the S&P 500 Index. We can see from the chart that these two indices track together rather closely. Last Tuesday the NFIB announced that its Small Business Optimism Index jumped from 98.4 to 105.8, a 7.5% increase, the 3rd largest monthly increase for the index since its inception in 1974. The December increase is nearly a 4 standard deviation move placing the move in the 98th percentile of all monthly changes in the index's 42-year history. This largest increase in the Small Business Optimism Index since 1980 bodes well for economic growth in 2017 and by extension the US stock market.



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Trump Era, Brexit May Spur Year of Greater Currency Volatility

Donald Trump is making volatility great again. If the reaction to the U.S. President-elect's first press conference is anything to go by, we are in for big swings in currency markets this year.

One-week implied volatility on the euro-dollar, a measure of the cost of options to protect against swings in the currency, surged the most in a month after Trump's press conference last week. And that came on the back of no real policy news. A dollar index dropped as much as 2 percent in two days.

With Trump's policy agenda still uncertain, the theme of greater fiscal stimulus and higher inflation that have driven up the dollar and U.S. treasury yields is not a one-way bet. Divided market positioning means surprises either way on Trump's promises will add to price swings, causing an increase in hedging costs for investors.

Many investors from banks, pension and hedge funds are still looking to add long positions on the dollar, while a few are overweight, say traders in the U.S. and Europe, who asked not to be named as they are not authorized to speak publicly. Others have neutral positioning.

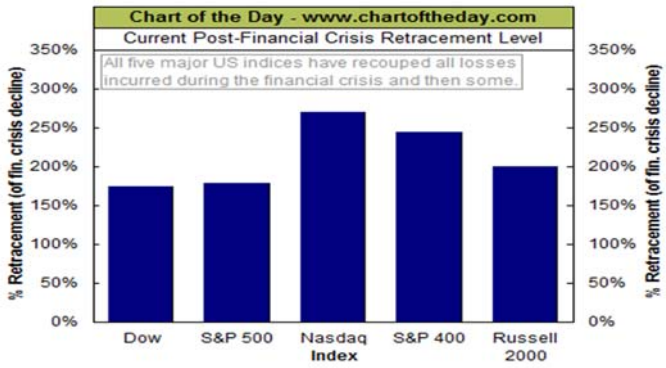
There's room for realized volatilities, near 10-year averages, to steepen. JPMorgan's index of Group-of-Seven volatility stands at 10.78 percent, compared to 12.79 percent on June 14 ahead of the U.K.'s vote on EU membership.

Uncertainty over Trump isn't the only political risk factor on the horizon, with Brexit negotiations and European elections coming up this year.

Click here to read more

For some perspective on the post-financial crisis rally

Today's chart illustrates how much of the downturn that occurred as a result of the financial crisis has been retraced by each of the five major stock market indexes. For example, the Dow peaked at 14,164.53 back in October 9, 2007 and troughed at 6,547.05 back on March 9, 2009. The most recent close for the Dow is 19,855.53 -- it has retraced 174.7% of its financial crisis bear market decline. As today's chart illustrates, each of these five major stock market indices have retraced over 170% of their financial crisis decline. However, it is the tech-laden Nasdaq that leads the pack with a retracement of 269% -- impressive considering the severity of the financial crisis bear market.



Click here to expand chart

Investors are bracing for a massive stock-market selloff

If options traders are correct, stocks are in for a wild ride in February. Demand for one-month call options tied to the CBOE Volatility Index, a popular gauge of stock-market volatility, has spiked in the past week, a sign that some are bracing for a sharp downturn following the inauguration of President-elect Donald Trump. In that time, investors have purchased 250,000 VIX call options with a strike price at 21, and another 100,000 with the strike at 22, according to Brian Bier, head of sales and trading at Macro Risk Advisors, an options brokerage. Click here to read more

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