HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ October 16, 2017

Stocks are behaving in a way not seen since the tech bubble

Stocks are operating with a mind of their own to an extent not seen since the dotcom bubble.

Normally tossed and turned by geopolitical events and macroeconomic developments, stocks are exhibiting a historically high degree of independence at a time when price swings remain locked near all-time lows.

As of earlier this month, 65% of the risk associated with the average S&P 500 stock was inexplainable by a set of six macro risk factors maintained by Morgan Stanley over the past 63 days. That's the highest since the financial crisis, the firm wrote in a client note.

And if you extend the period of comparison to 252 days, the measure of stock-specific risk is the highest since 2001, the age of the dotcom bubble, Morgan Stanley data show.

These types of market conditions are ideal for stock pickers, who make their living analyzing company fundamentals and betting on single stocks.

About 54% of large-cap mutual-fund managers are beating their benchmarks in 2017, the highest-ever success rate at this time of year, according to Bank of America Merrill Lynch data going back to 2009. If they keep up the pace through the end of the quarter, it would be the first year since 2007 — right around the time of the financial crisis — that more than half of them outperformed benchmarks, according to the data.

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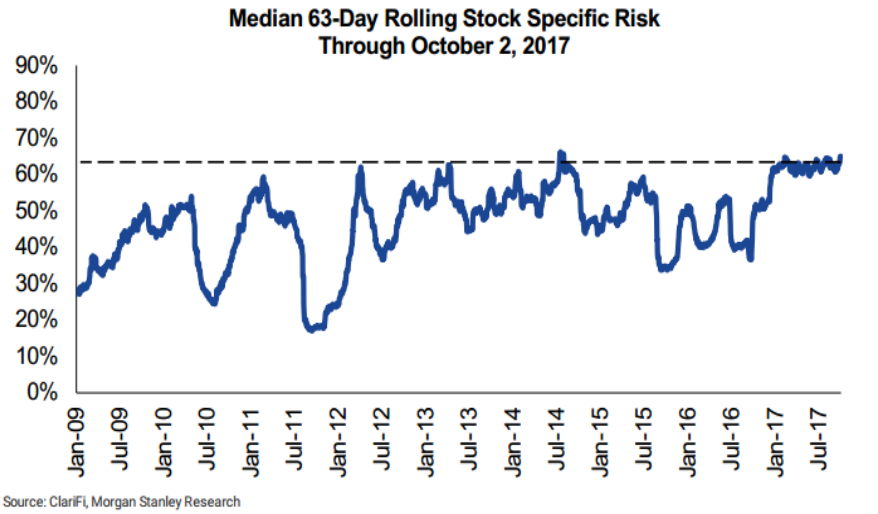

Remember 1999 when stocks were hitting ridiculous values? We are not at ridiculous values now but getting close. - Drew

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The winner of this year's Nobel Prize in economics says he's "nervous" about stocks.

"We seem to be living in the riskiest moment of our lives, and yet the stock market seems to be napping," Richard Thaler, who won the prize for his contributions to behavioral economics, told Bloomberg TV on Tuesday. "I admit to not understanding it."

"I don't know about you, but I'm nervous, and it seems like when investors are nervous, they're prone to being spooked," he said, adding that "nothing seems to spook the market."

Stocks have been on an upward trajectory for years, and back in September the S&P 500's bull run became the second-best-performing since World War II. The benchmark index has climbed about 270% from its March 2009 low .

They have continually touched new highs since President Donald Trump's election in November 2016, attributed to strong corporate-earnings growth and Wall Street's hopes of business-friendly policies.

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QUOTE OF THE WEEK

"Greatness is a road leading towards the unknown."

- Charles de Gaulle

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 October 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 18.28% year to date.

Market Perspectives (through 10/16/2017)

60/40 Allocation: 9.68% YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 14.04% YTD **Barclays Agg:** 3.14% 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)*	979.37	8.47	0.87%	22.19	2.32%	161.17	19.70%
Dow Jones Industrial Average	22871.72	98.05	0.43%	713.54	3.22%	3109.12	15.73%
S&P 500 Index	2553.17	3.84	0.15%	54.80	2.19%	314.34	14.04%
Nasdaq Composite Index	6605.80	15.62	0.24%	145.61	2.25%	1222.68	22.71%
S&P MidCap 400 Index	1818.82	0.39	0.02%	70.34	4.02%	158.24	9.53%
Russell 2000 Index	1502.66	-7.56	-0.50%	75.77	5.31%	145.53	10.72%
MSCI EAFE Index (EFA)	69.57	1.14	1.67%	1.69	2.49%	11.84	20.51%
MSCI Emerging Markets Index (EEM)	46.66	1.03	2.26%	1.46	3.23%	11.65	33.28%
Markit iBoxx USD Liquid High Yield Index*	269.24	-0.04	-0.01%	1.77	0.66%	16.11	6.36%

Above returns include dividends
Data Source: Investors FastTrack

Term of the Week:

AAA

AAA is the highest possible rating assigned to an issuer's bonds by credit rating agencies. An AAA-rated bond has an exceptional degree of creditworthiness, because the issue can easily meet its financial commitments. The ratings agencies Standard & Poor's (S&P) and Fitch Ratings use the AAA to identify bonds with the highest credit quality, while Moody's uses AAA is the top credit rating.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Domestic equities registered modest weekly gains, as investors tried to gauge the likelihood of healthcare and tax reform initiatives and earnings season ramped up. Developed international markets were sharply higher for the week, while emerging markets surged to a six-year high due to optimism over global growth after the International Monetary Fund raised its outlook.

Fixed Income: The benchmark 10-Year US Treasury Note yield eased to 2.28%. Domestic high yield bond spreads dipped to their lowest levels in more than three years, at 3.51%, before ending the week at 3.56%. Inflows to high yield bond mutual funds and ETFs picked up in the weekly period ended October 11th, at just under $1 billion. European bond yields fell on a report that the European Central Bank will likely extend their bond repurchase program into next year while scaling it back.

Commodities: US West Texas Intermediate (WTI) Crude Oil prices regained $50 per barrel, closing out the week around $51.46. Saudi Arabia announced plans for additional production cuts, sending crude prices sharply higher. US crude inventories declined by $2.7 million barrels during the week ended October 6th. Gold prices rose after falling for four consecutive weeks in response to weaker-than-anticipated US inflation data.

WEEKLY ECONOMIC SUMMARY

Inflation remains elusive: The September Consumer Price Index (CPI) fell below consensus forecasts for a 0.6% monthly rise in inflation, coming in at 0.5%. The data was weak considering it includes the impact of the hurricanes, which caused a 6.1% spike in energy prices. Excluding food and energy, the core CPI number rose just 0.1% month-over-month. Despite the persistent lack of inflation, the Fed still appears likely to hike rates in December.

FOMC makes its case for December rate hike: The minutes of the September Federal Open Market Committee meeting revealed that inflation remains a concern for many Fed members. The Fed has remained confident that the low inflation data is "transitory", or temporary, however there was some debate over whether this is the case. Overall, the committee remains confident that the 2% goal will eventually be reached, although perhaps the timeline may have shifted back a bit.

ECB hints at 2018 plans: The European Central bank is weighing its options for its bond repurchase program, set to expire at the end of the year. The likely approach, according to a Reuters report citing sources with direct knowledge of the discussions, would be a nine-month extension at reduced levels. The ECB currently repurchases 60 billion euros ($70.9 billion USD) in bonds each month, but could lower the monthly bond purchases to a range of 25-40 billion euros ($29.5-$47.3 billion USD).

Current Model Allocations

Last Week's Manager Moves

HIM #14 – Sold 50% Long Bond and bought 50% Long Bond on 10/10; Sold 50% Long Bond and bought 25% Long Bond on 10/11; Bought 50% Long Bond on 10/12; Sold 25% Long Bond on 10/13

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% alternative equity mutual fund
HIM #3	43% convertibles /29% dividend equities/14% powershares/ 14% Fund
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% long treasuries
HIM #9	20% long S&P /80% alternative equity mutual fund
HIM #8	100% QQQ
HIM #22	100% CASH
HIM #14	50% short treasuries/ 50% CASH
HIM #10	98% invested, 2% cash
HIM #15	100% invested
HIM #11	90% (18) stocks/10% 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 percentage of stocks on the New York Stock Exchange (NYSE) trading above their 200 Day Moving Averages (200 DMA). The chart below shows that percentage breaking above (green circle) the Declining Tops Line (red line) reaching above the 70% level, this shows the improving internal technicals of the market as it hits new highs.

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

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