HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ December 11, 2017

There's overwhelming evidence that the U.S. stock market is heading for disaster

Bonfires are fun to watch, but they eventually burn out.

Human folly apparently doesn't, so we just keep adding to the absurdities. The volume of daily economic lunacy that lights up my various devices is truly stunning, and it seems to be increasing. (You can find a previous series of charts in my free newsletter, Thoughts from the Frontline.)

Let's take a look at a series of charts I received from my "kitchen cabinet" of friends.

The economy is more leveraged than ever

First up is Grant Williams, who sent me a monumental slide deck. Here's an example of craziness:

This chart is straightforward: It shows outstanding credit as a percentage of GDP. Broadly speaking, this is a measure of how leveraged the U.S. economy is.

It was in a sedate 130%-170% range as the economy industrialized in the late-19th and early-20th centuries. It popped higher in the 1920s and 1930s before settling down again. Then came the 1980s. Credit jumped above 200% of GDP and has never looked back.

It climbed steadily until 2009 and now hovers over 350%.

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We all know it is coming, just when is the question. Getting out of harms way with daily active management is the key.—Drew

Brokerage billionaire: Bitcoin futures could lead to a Lehman-style collapse

CBOE Global Markets announced Monday that it will launch trading of bitcoin futures, under the "XBT" ticker symbol, next weekend, giving crytpo traders the "tools to help them express their views and hedge their exposure."

It could also give them — and many others — plenty of heartache, if this warning sounded by Interactive Brokers IBKR, +1.56% Chairman and CEO Thomas Peterffy, in an interview with Fortune, turns into a reality:

The "unlikely event" he's referring to is his fear that, if bitcoin falls dramatically — we KNOW this is possible/probable — clearing houses could be exposed to traders who can't cover the shortfall when their contracts go sideways.

Peterffy explained that while the bigger clearing houses would be able to absorb the risk, the smaller ones could burn through their liquidity trying to cover the bad bitcoin bets. If that happens, he says, it could contaminate the entire system.

"The issue is they're putting bitcoin in the same basket as U.S. Treasuries, stock-index futures, and all the really serious products," Peterffy told Fortune.

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QUOTE OF THE WEEK

"Leadership is influence."

- 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 December 8, 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 21.13% year to date.

Market Perspectives (through 12/11/2017)

60/40 Allocation: 12.29% YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 18.43% YTD **Barclays Agg:** 3.07% 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)*	999.85	1.48	0.15%	9.30	0.94%	181.65	22.20%
Dow Jones Industrial Average	24329.16	97.57	0.40%	765.80	3.25%	4566.56	23.11%
S&P 500 Index	2651.50	9.28	0.35%	57.12	2.20%	412.67	18.43%
Nasdaq Composite Index	6840.08	-7.51	-0.11%	50.96	0.75%	1456.96	27.07%
S&P MidCap 400 Index	1890.86	-3.72	-0.20%	54.77	2.98%	230.28	13.87%
Russell 2000 Index	1521.73	-15.29	-0.99%	40.00	2.70%	164.60	12.13%
MSCI EAFE Index (EFA)	69.84	0.01	0.01%	-0.03	-0.04%	12.11	20.98%
MSCI Emerging Markets Index (EEM)	45.94	0.10	0.22%	-0.84	-1.80%	10.93	31.22%
Markit iBoxx USD Liquid High Yield Index*	268.65	-0.01	0.00%	0.44	0.16%	15.52	6.13%

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

Term of the Week:

Retirement Planning

Retirement planning is the process of determining retirement income goals and the actions and decisions necessary to achieve those goals. Retirement planning includes identifying sources of income, estimating expenses, implementing a savings program and managing assets. Future cash flows are estimated to determine if the retirement income goal will be achieved.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Investors took some gains off the table early in the week, but global equity markets rebounded after strong US jobs data and a breakthrough in Brexit negotiations. The domestic equity sector rotation out of Tech and into Financials continued from the prior week, albeit to a lesser extent. The industrials sector continued to outperform, bolstered by the pending tax reform bill. Developed International and Emerging Market equities ended the week relatively flat.

Fixed Income: The benchmark 10-Year US Treasury Note yield was up slightly, ending the week around 2.38%. Domestic high yield bonds were relatively unchanged with the spread over Treasuries up two basis points to 3.63%. Inflows to high yield mutual funds and ETFs trickled in at $217 million. High yield bond prices have recovered from the steep November selloff, but have yet to surpass their old highs from September.

Commodities: Oil prices retreated after data showed a sharp rise in domestic gasoline inventories. US gasoline stockpiles rose by 6.8 million barrels, suggesting demand may be weakening. Crude inventories fell by 5.6 million, but the drop was largely attributed to the closure of the Keystone pipeline, which was just reopened on Thursday. US West Texas Intermediate prices ended the week around $57.32 while international benchmark Brent Crude closed around $63.37.

WEEKLY ECONOMIC SUMMARY

November Jobs Data: Unemployment remained at 4.1% while US employers added 228,000 jobs during the month of November. The manufacturing sector was particularly strong, growing by 31,000 jobs during the month. The impact of Hurricanes Harvey and Irma was partially responsible for an outsized gain of 24,000 construction jobs, and may have boosted temporary hiring as roughly 200,000 Puerto Ricans were displaced and relocated to Florida.

Brexit Breakthrough? British Prime Minister Theresa May struck a deal with the European Union to keep loose borders between Northern Ireland and EU member Ireland. Furthermore, the two sides reached an agreement on the rights of EU citizens living and working in the UK (and vice-versa), which was a major question mark in the Brexit process.

Japanese Growth Revised Up: The Japanese economy expanded faster than anticipated in the third quarter, new data showed. Growth was revised upward from 1.4% to 2.5% thanks to increased exports and business spending. Japan's economy is the world's third-largest and has expanded for seven straight quarters, its longest streak on record since 1994.

Current Model Allocations

Last Week's Manager Moves

HIM #7 — Sold 60% Fund on 12/5

HIM#2 —Sold 34% Fund on 12/5

HIM #14 – Sold 25% Fund on 12/4; Bought 25% Fund on 12/5; Bought 25% Fund on 12/6; Sold 75% Fund and bought 25% Fund on 12/7; Sold 25% Fund and bought 75% Fund on 12/8

HIM #3 — Sold 14% Fund on 12/5; Bought 14% Fund on 12/6; Sold 14% Fund on 12/8

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% CASH
HIM #20	94% high yield/ 6% CASH
HIM #19	50% MBS/50% real estate mutual fund
HIM #23	100% high yield

Moderate Risk

HIM #2	66% mid-cap/34% CASH
HIM #9	20% long S&P /80% alternate equity mutual fund
HIM #8	100% QQQ
HIM #22	100% S&P 500
HIM #14	75% long treasury/25% CASH
HIM #10	98% invested, 2% cash
HIM #15	100% invested
HIM #11	85% (17) stocks/15% 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.

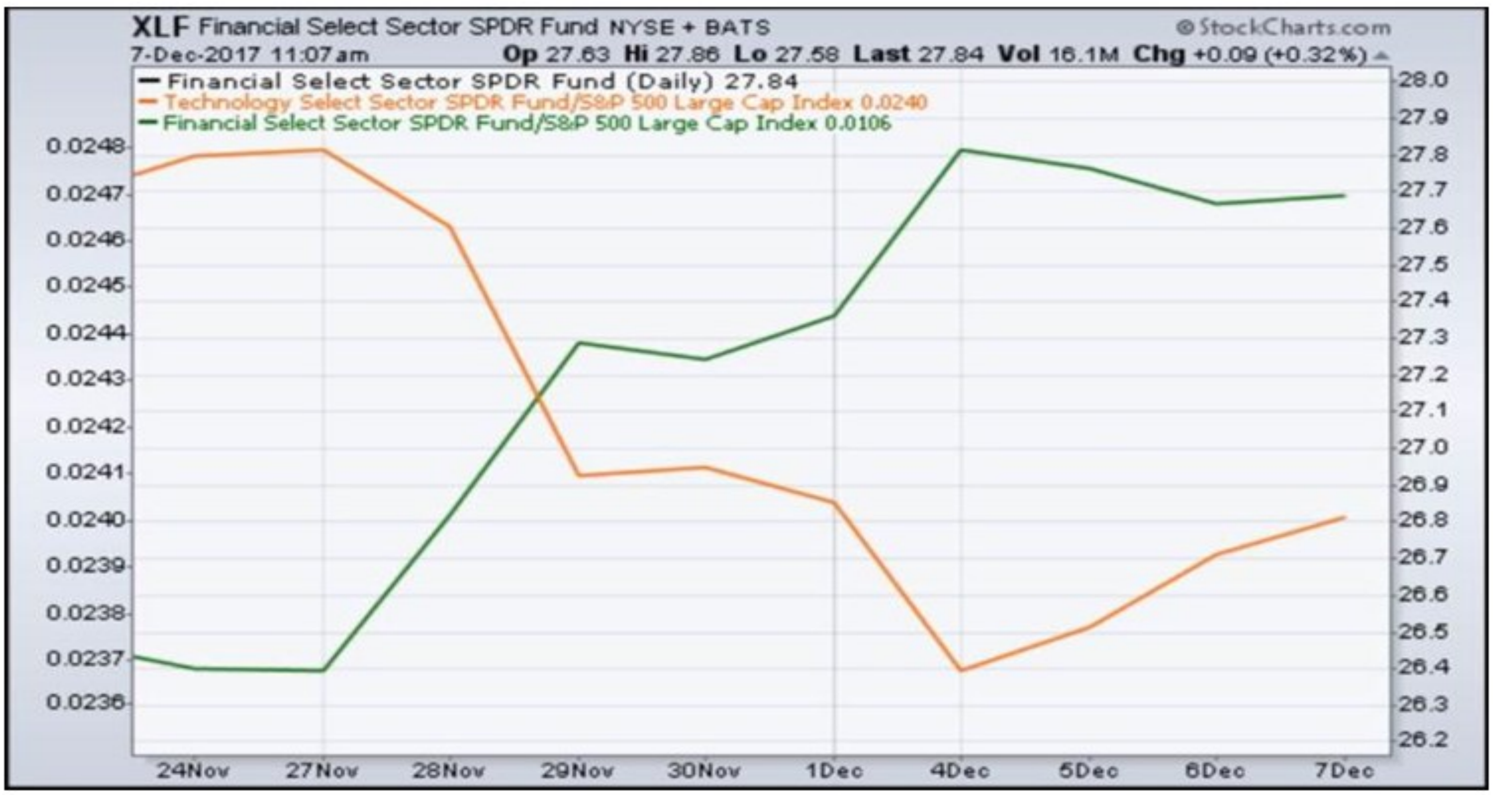

Chart courtesy of stockcharts.com. Commentary and opinions are those of Hanlon Investment Management.

Chart of the Week:
The Chart of the Week shows the Technology Sector ETF (XLK) (orange line) and the Financial Sector ETF (XLF) (green line) both relative to the S&P 500 index, which clearly displays the sharp rotation occurring in the S&P 500 since the end of November.

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