HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ July 24, 2017

8 Reasons to Worry About the Stock Market

After two major bubbles in the past two decades, everyone want to be the person to spot the next one.

"Bubbles are never recognizable when you're inside a bubble," said Jim Stack, president of InvesTech Market Research. "It isn't acknowledged until after it deflates, and people say, 'Wow, things got really out of hand there.'"

Investor sentiment

The American Association of Individual Investors weekly survey showed that just 25.8% of respondents were bearish the week of July 19, versus a historical average of 30.5%. Normally, sentiment is a contrarian indicator, meaning you should do the opposite of what the crowd does. In October 2007, on the eve of the bear market, bearish sentiment was 25.8%. Bearish sentiment in March 2000 was 33.8%, up sharply from a low of 14.4% in February 2000.

Stock concentrations and valuations

The Standard & Poor's 500 reached its 25th record high of the year on July 14, and the bull market is now in its eighth year. Are there signs of bubbles? Sure. And they're all debatable. If there is a bubble, we'll know it when it bursts. In the meantime, here are some things to worry about. The five largest stocks in the S&P 500 — Apple, Alphabet, Microsoft, Amazon, Facebook, all tech stocks — accounted for 12.8% of the index in June, according to the Leuthold Group. Those five stocks sell for a median 41.7 times past 12 months' earnings, and 26.1 times forward earnings. "While current weights are similar in magnitude to the top five from 1999, we have not currently seen the steep rise and bubbly spike that tends to foretell the sudden peak of a market fad," writes Scott Opsal of the Leuthold Group.

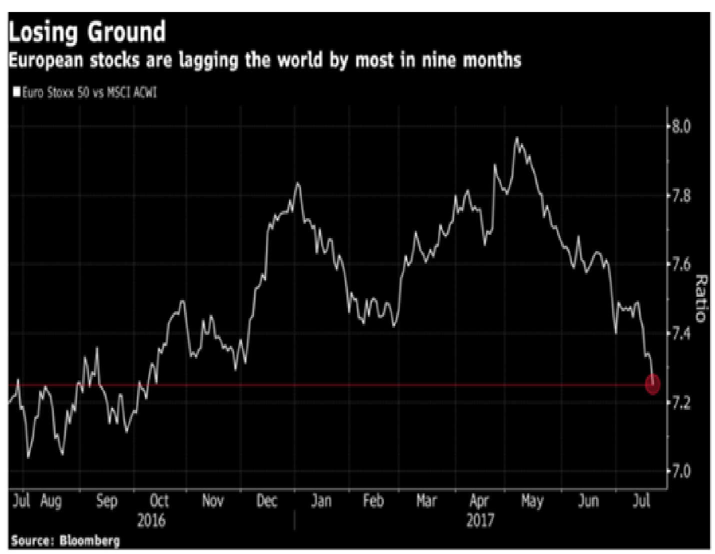
Click here to read more

U.S. Stocks Slip, Treasuries Mixed as Oil Gains

U.S. stocks fluctuated and the dollar weakened to start a week packed with corporate results and a Federal Reserve rate decision. The euro headed for its first decline in three days as data showed the region's economy cooling.

The S&P 500 Index fell from near a record as investors kept an eye on Washington, where Jared Kushner prepared to testify to a Senate committee as President Donald Trump's policy agenda remained largely stalled. Technology shares slipped ahead of Alphabet Inc.'s earnings later Monday. The euro halted the advance that saw it hit a two-year high. Crude gained as Saudi Arabia said it would make deep cuts to exports in August.

Earnings from industry bellwethers including Amazon.com Inc. and GlaxoSmithKline Plc and central bank policy discussions are set to provide the latest tests for the equity bull market, which has propelled the value of shares globally to $78 trillion. The euro-area manufacturing figures indicate that gross domestic product is expanding at the weakest pace in six months, adding further doubts about the sustainability of the stock rally at a time when the strong euro is weighing on exporters. Click here to read more.



QUOTE OF THE WEEK

"It's amazing what you can accomplish if you do not care who gets the credit."

- Harry S. Truman

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 21, 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 13.19% year to date.

Market Perspectives (through 07/21/2017)

60/40 Allocation: 7.17 % YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 10.44% YTD **Barclays Agg:** 2.27% YTD

INDEX PERFORMANCE

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
MSCI All-Country World Index (ACWI)*	938.09	6.08	0.65%	23.75	2.60%	119.89	14.65%
Dow Jones Industrial Average	21580.07	-57.67	-0.27%	170.04	0.79%	1817.47	9.20%
S&P 500 Index	2472.54	13.27	0.54%	36.93	1.52%	233.71	10.44%
Nasdaq Composite Index	6387.75	75.29	1.19%	153.80	2.47%	1004.63	18.66%
S&P MidCap 400 Index	1773.92	8.60	0.49%	39.01	2.25%	113.34	6.83%
Russell 2000 Index	1435.84	7.02	0.49%	36.59	2.61%	78.71	5.80%
MSCI EAFE Index (EFA)	66.55	0.23	0.35%	1.56	2.40%	8.82	15.28%
MSCI Emerging Markets Index (EEM)	43.63	0.21	0.48%	2.56	6.23%	8.62	24.62%
Markit iBoxx USD Liquid High Yield Index*	266.92	1.68	0.63%	3.28	1.24%	13.79	5.45%

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

Term of the Day:

Dow Jones Industrial Average - DJIA

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

Often referred to as "the Dow," the DJIA is one of the oldest, single most-watched indices in the world and includes companies such as General Electric Company, the Walt Disney Company, Exxon Mobil Corporation and Microsoft Corporation. When the TV networks say "the market is up today," they are generally referring to the Dow.

Dow Jones - Week Ending

Global Equities: US equities inched higher in weekly trading as investors weighed earnings data and more political turmoil from the Trump administration. Amongst domestic equity sectors, Utilities were the best performers and Industrials were the worst. Developed international markets and emerging markets posted modest gains for the week.

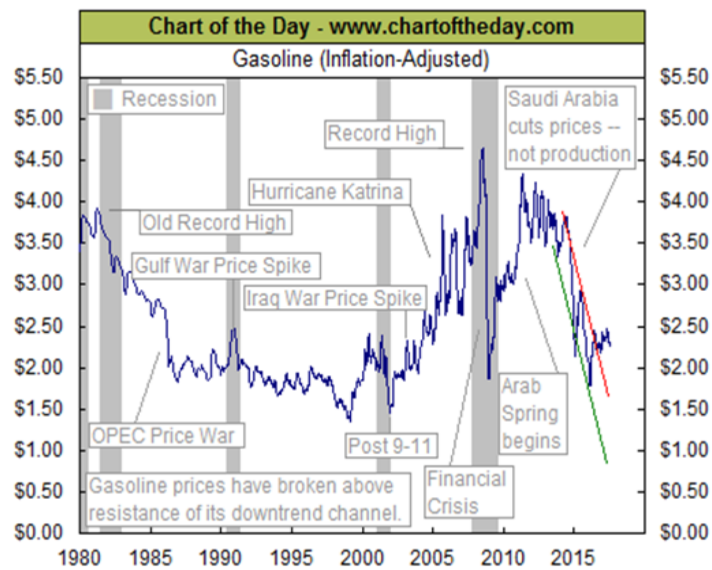
Fixed Income: Treasury yields ended the week lower, with the benchmark 10-Year US Treasury Note yield at 2.23%. High yield bond prices edged higher, pushing the iShares iBoxx $ High Yield Corporate Bond ETF (Ticker HYG) to a new 52-week high. Investors added $2.221 billion of inflows to high yield bond mutual funds and ETFs in the weekly period ended July 19th. The spread on the Bank of America Merrill Lynch US High Yield Master II Index declined to 3.61%, the tightest level since March 3rd.

Commodities: West Texas Intermediate (WTI) prices rose above $47 midweek, but gave back their gains to end the week back under $46 a barrel after reports that OPEC July output will likely be the highest year-to-date, despite the standing agreement to reduce production. Domestic crude inventories declined by 4.7 million barrels during the prior week. The count of active US oil and gas rigs fell by 2 this week, however Canadian drillers added 15 active rigs.

Jobs Market Strength: The number of Americans filing initial unemployment claims fell again last week, to near a 44-year low. Initial jobless claims for the week ended July 15th fell by 15,000 to 233,000. Continuing claims, reported on a one-week lag, rose by 28,000 to 1.98 million.

Chart of the Day

Today's chart provides some long-term perspective in regards to gasoline prices by presenting the inflation-adjusted US price of one gallon of gasoline since 1980. There are a couple of points of interest. For one, geopolitical crises are often associated with major swings in the price of gasoline. It is also worth noting that, the price of gasoline recently broke through resistance of its three-year downtrend channel (see red line).



Current Model Allocations

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% high-yield Mutual fund
HIM #6
10% short duration/75%high yield/10% strat inc/5% deb
HIM #3
29% convertibles /29% dividend equities/14% powershares

14% Income Builder Fund/14% cash
HIM #20
5% cash/ 95% high yield
HIM #19
50% MBS/50% real estate mutual fund
HIM #23
100% high yield

Moderate Risk

HIM #12
100% long treasuries
HIM #9
20% long S&P /80% alternative equity mutual fund
HIM #8
100% QQQ
HIM #22
100% cash
HIM #14
25% cash/75% short treasuries
HIM #10
100% invested
HIM #15
100% invested
HIM #11
65% (13) stocks/35% cash
HIM #21
15% long real est/75% real estate mutual fund/10% cash

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 that the S&P 500 had been in a high-level trading range **(purple rectangle)**. But now it looks like the S&P 500 may be breaking out and resuming its uptrend **(green circle)**.

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