

# HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary

<http://horterinvestment.com/>

April 15, 2019

## Guggenheim Warns of Bear Market with 50% Declines

Asset manager Guggenheim just put out a big call. The money manager's strategists think that the economy is headed for a recession and markets are headed for huge declines. Their call is more interesting than the usual prognostications though. They point out that while this recession looks likely to be shallow because of a lack of underlying issues in the economy, the losses the market will suffer are likely to be severe. Scott Miner of Guggenheim points out that "Our work shows that when recessions hit, the severity of the downturn has a relatively minor impact on the magnitude of the associated bear market in stocks". Instead, it is the loftiness of valuations prior to the downturn that has a greater

impact on how markets behave during a recession.

[Click here to read more.](#)



## A Sign This Bull Market is Dying

There have been a lot of bullish indicators lately, and not just in share prices rising. However, there is a big warning sign that investors need to be paying attention to. One of the challenges of assessing corporate earnings is to get a feel for where things are really headed when the whole Wall Street

reporting mechanism is stacked to make you think companies are always outperforming. One way to do so is to look at spreads between GAAP earnings and so-called "adjusted earnings", or the doctored earnings companies love to show to make themselves appear more attractive. The wider the spread, the more companies are reaching to appear as though things look good. This, therefore, makes it a bellwether for how earnings and the economy are really trending. The spread between the two types of earnings stood at \$200 bn for year-end 2018, the highest level since 2010.

[Click here to read more.](#)



### QUOTE OF THE WEEK

**"In this world nothing can be said to be certain, except death and taxes."**

- Benjamin Franklin

# 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 April 12, 2019. 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 12.82% year to date.

<b>Index</b>	<b>Last Week</b>		<b>One Month</b>	<b>Year-to-Date</b>
	<b>Close</b>	<b>% Change</b>	<b>% Change</b>	<b>% Change</b>
<b>Dow Jones Industrial Average Index</b>	26,412.30	-0.03%	3.49%	13.96%
<b>S&amp;P 500 Index</b>	2,907.49	0.56%	4.33%	16.67%
<b>Nasdaq Composite Index</b>	7,983.61	0.58%	5.26%	20.69%
<b>60/40 Portfolio (BAGPX)</b>	12.68	-0.79%	2.51%	10.36%
<b>US Aggregate Bond Index</b>	2,098.12	-0.02%	0.81%	2.52%
<b>20+ Year Treasury Bond (TLT)</b>	122.67	-1.10%	0.50%	0.95%
<b>MSCI EAFE (EFA)</b>	66.44	0.54%	3.84%	13.03%
<b>MSCI Emerging Markets (EEM)</b>	44.36	0.68%	4.03%	13.57%
<b>France CAC Index (EWQ)</b>	30.56	1.26%	4.48%	17.67%
<b>Germany DAX Index (EWG)</b>	28.22	1.11%	4.17%	11.32%
<b>Italy Borsa Index (EWI)</b>	28.43	0.89%	5.45%	17.43%
<b>London FTSE (EWU)</b>	33.94	0.65%	4.40%	15.64%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

## Term of the Week: Pairoff

A pairoff is a purchase of securities to offset a previously transacted sale of the same security. Another meaning for the term is a transaction in securities markets where off-setting buy and sell trades are settled in cash, based on the difference in the prices between the off-setting trades. No securities trade hands; instead the settlement difference between the trades is calculated, and a money wire is sent to the appropriate party.

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 E\*TRADE Advisor Services, 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:** US equities traded sideways in a fairly narrow range, with most of the gains being made on Friday thanks to a solid start to earnings season from a few large-cap financials. This helped the previously underperforming SPDR Select Sector Financial ETF (XLF) to lead all sectors, with a nearly 2% gain on Friday and the week. The major US indices were mixed, with the S&P 500 Index and the Nasdaq Composite salvaging gains of around .56%, while the Dow Jones Industrial Average was relatively flat on the week. Developed International stocks represented by the iShares MSCI EAFE Index Fund ETF (EFA) managed to record a small .29% gain despite a ramping up of trade war rhetoric between the US and the EU. A late week rally spurred by news of expanded Chinese lending couldn't get Emerging Market equities represented by the iShares MSCI Emerging Market Index ETF (EEM) out of negative territory, which slipped -.09% on the week.

**Fixed Income:** Interest rates finally broke higher late in the week, as the US Treasury yield curve became less-slumped at intermediate maturities and slightly steeper at the long end as the 10-year US Treasury Note yield jumped above 2.56%. The interest rate spread of high yield bonds over equivalent Treasury securities tightened to new lows as the iShares iBoxx High Yield Bond ETF (HYG) made new 52-week highs, gaining .58% on the week. Cash is still flowing into high yield funds, per Lipper, with \$655 million helping to absorb a tick-up in new issuance during the week ended 4/10.

**Commodities:** Oil prices continue to trade in a highly correlated manner with US equities, while fundamentally well supported by global supply issues. Supply in the US, however, continues to soar as the EIA reported a 17% year-over-year increase for US production, to 10.96 million barrels per day (b/d), in 2018. In December of 2018, production made a new US monthly record at 11.96 million b/d with expectations of continued growth through 2020. An announcement of Chevron (CVX) putting in a bid of \$33B for Permian driller, Anadarko

Petroleum (APD), may spark some buying interest in the sector that has slumped versus broad market indices. The price of West Texas Intermediate closed at \$63.82 per barrel, while the International Brent crude benchmark closed at \$71.55 per barrel. Natural gas prices were little changed during the week, at \$2.65/MMBtu.

## WEEKLY ECONOMIC SUMMARY

**US Inflation Data:** There was a bevy of price data released during the week, which included the Consumer Price Index (CPI), Producer Price Index (PPI), and Import & Export Prices. The message was fairly mixed except for the rising headline readings for each due to rising energy prices in March. Import & Export prices both came in "hotter" than expected at .6% and .7%, respectively, due mostly to rising energy costs. The CPI was the most subdued reading, with the Core (excluding food & energy) reading lower than consensus estimates at .1% month-on-month (MoM), while the Core PPI rising above consensus at .3% MoM. None of these measures were overly "hot" or "cold", as continued Goldilocks inflation measures support a patient stance by the Federal Reserve (Fed/FOMC).

**FOMC Minutes:** The minutes of the March FOMC meeting was released on Wednesday, reinforcing the new patient stance in regards to raising rates and ending the balance sheet run-off in the fall. The board members made it clear that the lack of inflation globally was becoming a concern but mentions of the word "moderate" or "moderating" when referring to other aspects of the economy fell. Some members indicated that that they would likely judge it appropriate to raise the target rate later this year if economic growth continued as expected, but the dot plot shows that rates will most likely stay where they are in 2019. Still, the likelihood of a rate cut is unlikely in 2019 with the US economy quite strong, despite pressure from public statements made by President Trump to do so.

**1<sup>st</sup> Quarter Earnings:** Reporting for the 1<sup>st</sup> quarter kicked off on Friday, with JP Morgan Chase & Co. (JPM) and Wells Fargo & Co. (WFC) both beating consensus analyst expectations for earnings. JPM shares jumped over 4% on Friday, thanks to record revenue and profit, while WFC dropped by -3.5% at one point after disappointing guidance and deteriorating fundamentals reversed an initial rise in the shares. The results were overall a positive, as the banks set the table with solid results despite sluggish global economic growth, with the issues at WFC being largely idiosyncratic as the bank struggles to put multiple scandals behind it.

## Tactical Fixed Income Model Allocations

4/12/2019

Exchange Traded Fund —4.8%	Exchange Traded Fund — 12.5%	Exchange Traded Fund — 8.8%	Exchange Traded Fund —4.8%
Exchange Traded Fund —13.6%	Exchange Traded Fund — 4.8%	Exchange Traded Fund — 13.6%	Exchange Traded Fund — 4%
Exchange Traded Fund —4%	Exchange Traded Fund — 26.1%	Cash —3%	

Data Source: Hanlon Investment Management

## Other Managers

HIM #9—	100% fund	HIM #8—	100% trust
HIM #22—	100% Rydex Nova Fund	HIM #10—	2% into 50 holdings
HIM #25—	100% fund		

# 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 Harter 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 Harter 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.



Data Source: Hanlon Investment Management

## Chart of the Week:

The Chart of the Week shows the performance of US small-cap equities, represented by the Russell 2000 Index (green line). After a 45-day consolidation period (gold box), the Russell 2000 appears ready to resume the relative strength shown earlier in 2019 after maintaining a technical break above of its 200-day moving average (red line). We maintain a positive outlook on US small-caps and are currently overweight the asset class in the less-conservative Hanlon models.