HORTER INVESTMENT MANAGEMENT, LLC

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White House chief economist: We could see 'zero' growth in first quarter because of shutdown

The chairman of President Donald Trump's Council of Economic Advisers said Wednesday the United States could post no economic growth in the first quarter if the federal government does not reopen.

"If [the shutdown] extended for the whole quarter, and given the fact that the first quarter tends to be low because of residual seasonality, then you could end up with a number very close to zero in the first quarter," Kevin Hassett told CNN.

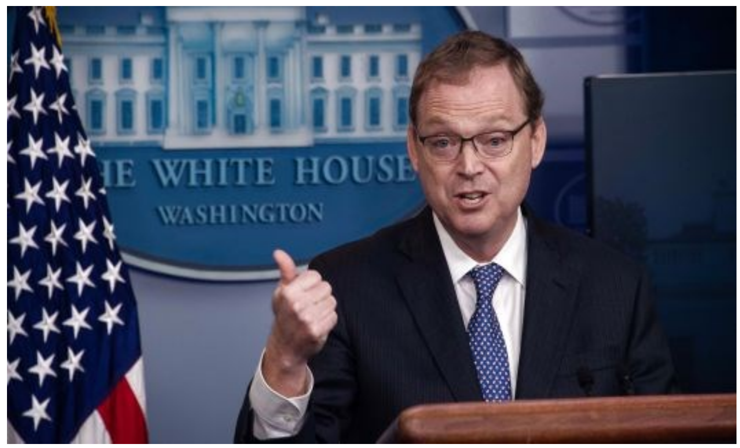
Asked whether GDP growth could hit zero in the quarter, Hassett said "Yes, we could."

"But then again, the second-quarter number would be humongous if the government reopened. It would be like 4 or 5 percent," Hassett said.

In recent decades, GDP growth in the first quarter has been notably weaker than growth in other quarters.

The federal government shutdown was in its 33rd day Wednesday, with little sign of relief for the roughly 800,000 federal workers going without pay. The Senate on Thursday is holding votes on competing GOP and Democratic proposals that would fund the government through Feb. 8. Neither measure is expected to pass because of the parties' standoff over President Donald Trump's demand for $5.7 billion for a wall along the Mexican border.

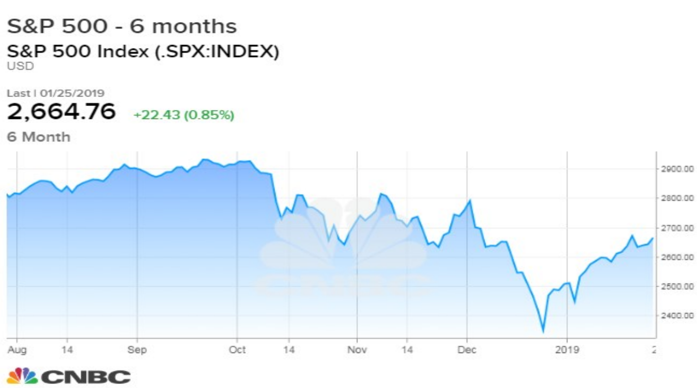
Click here to read more.



Investors remain on edge even after big January comeback — and that might be a good thing

At this point last year, the market was in a roughly similar spot, but the mood could hardly be more different.

The S&P 500 was up 7.4 percent year to date this time last January, in one of the best starts to any year, and investors were giddy, greedy and comfortable, on the whole, with the reasons for the gains.



Today, the index is ahead by 6.3 percent less than four weeks into the year, and investors are relieved but also ambivalent and gun shy — unsure if the bear raid of the prior few months is over or only in abeyance.

The fragile psychology and tentative stance of market participants right now will probably serve the market well for a while, according to strategists who track supply-and-demand dynamics and the market's own response to fundamentals.

"Investor conviction is low, whether a bull or a bear — not surprising given the savage volatility seen in December 2018, which effectively destroyed the playbooks for most investors," Fundstrat Global Advisors strategist Thomas Lee said.

Click here to read more.

QUOTE OF THE WEEK

"Before anything else, preparation is they key to success."

-Alexander Graham Bell

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 January 25, 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 5.27% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	24,734.69	0.12%	13.63%	6.16%
S&P 500 Index	2,664.68	-0.21%	13.50%	6.41%
Nasdaq Composite Index	7,161.58	0.11%	15.75%	8.01%
60/40 Portfolio (BAGPX)	11.98	0.25%	4.81%	4.26%
US Aggregate Bond Index	2,052.40	0.30%	0.80%	0.28%
20+ Year Treasury Bond (TLT)	120.53	0.81%	0.42%	-0.81%
MSCI EAFE (EFA)	62.17	0.14%	6.80%	5.77%
MSCI Emerging Markets (EEM)	42.20	3.36%	8.43%	8.04%
France CAC Index (EWQ)	27.61	1.17%	5.14%	6.31%
Germany DAX Index (EWG)	26.95	0.97%	7.33%	6.31%
Italy Borsa Index (EWI)	25.97	0.54%	8.71%	7.27%
London FTSE (EWU)	30.90	-0.19%	5.57%	5.28%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Laddering

Laddering is the promotion of inflated pre-IPO prices for the sake of obtaining a greater allotment of the offering. Laddering is an illegal IPO practice in which the underwriter engages in the sale of IPO shares to clients with the implicit agreement that more shares will be purchased post IPO, leading to big gains for both parties. Once the price increases a certain level, "insiders" then sell their shares and take their profits.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: A late rally to close out the holiday-shortened week salvaged the early 2019 hot streak for US equity indices. Fueled by solid earnings from the final quarter of 2018 and a Wall Street Journal report that the US Federal Reserve (Fed) may be close to ending the run-off of assets, major US equity indices finished mostly unchanged after the early week slump. The Dow Jones Industrial Average and the Nasdaq Composite Index squeaked out gains of around .1%, while the S&P 500 Index was down -.3%. Real Estate and the Select Sector Real Estate SPDR ETF (XLRE) led the sectors, rising 1.4% on the week, while the Energy Select Sector SPDR ETF (XLE) trailed by losing -1.4%. Confidence in the end of monetary tightening policies offset more negative economic news out of International markets and helped Emerging Market equities, represented by the iShares MSCI Emerging Market Index ETF (EEM), to gain 1.56% while International Developed iShares MSCI EAFE Index ETF (EFA) gained a slight .14% on the week.

Fixed Income: The 10-year US Treasury Note yield, again, stayed in a fairly narrow range, and closed near 2.75% after starting near 2.78%. Bond investors seem to be tentatively awaiting the decision from the Fed on January 30th for guidance on the future path of interest rates, after the market has nearly completely removed further interest rate increases in 2019. High yield bond funds moved directionally with equities and closed the week almost unchanged as the iShares IBoxx High Yield Corporate Bond ETF (HYG) lost -.1% with spreads slightly wider. Lipper reported slight outflows from high yield funds, equal to $264 million for the weekly period ended January 23rd.

Commodities: Oil, too, has paused its rebound and traded sideways during the week as correlations between stocks, oil prices, and bond yields remain elevated. US recognition of an opposition leader in Venezuela coincided with large demonstrations in the capitol, Caracas, which have increased the probability of change in the troubled oil-producing nation and added more uncertainty surrounding supply. A large rise in the Baker Hughes Rig Count also contributed to a cap on prices for the week. The West Texas Intermediate (WTI) benchmark slipped -.42%, while the International Brent crude benchmark lost -1.9% during the week, to close near $53.57 and $61.51 per barrel, respectively. Volatile natural gas prices dropped -8% to close the week at $3.17/MMBtu.

WEEKLY ECONOMIC SUMMARY

PMI Composite FLASH: The Flash Purchasing Managers' Index Composite, a survey-based early look at the state of the US economy, rose solidly to 54.5 for the month of January. This measure came in higher than the consensus estimate of 54.2 and the prior month final reading of 54.4, where any result above 50 signals expansion from the previous month. The strength for this month was driven mainly by manufacturing sector production, new orders, and employment. The service sector's composite was positive, but slightly lower than the final December reading on weaker-than-expected results for new orders.

Leading Economic Indicator (LEI) Index: The Conference Board LEI slipped -.1% from its all-time high of 111.8 in November to 111.7 for the month of December. Obvious weakness in equity prices combined with ISM New Orders and Building permits to drag the index slightly lower despite a strong boost from average weekly unemployment claims. The slight decline in the December reading suggests growth may slow down in 2019, perhaps decelerating to 2% growth for the year, while not yet accounting for the lengthy government shutdown, according to Ataman Ozyildirim, Director of Economic Research at the Conference Board.

Q4 Earnings Season: It was a big earnings week for some Dow Jones Industrial Average blue-chips such as International Business Machines (IBM), Johnson & Johnson (JNJ), and Proctor & Gamble (PG). IBM surprised analysts on the bottom line thanks to cloud services and cognitive solutions, which saw investors rewarded over 9% post announcement through week-end. The two household product behemoths had contrasting results in terms of post-release stock returns, with PG rising 3.5% after successfully raising prices to offset jumping costs and JNJ losing over -2% due to issuing disappointing conservative forward guidance. With 13.4% of S&P 500 companies having reported 4th quarter earnings, the 2019 forward P/E (on reported earnings) is 17.19.

Current Model Allocations

Tactical Fixed Income Model Allocations
1/25/2019

Cash—5%	Exchange Traded Fund —4%	Exchange Traded Fund —5%	Exchange Traded Fund —1.5%
Exchange Traded Fund — 2.5%	Exchange Traded Fund —5%	Exchange Traded Fund —10%	Exchange Traded Fund —10%
Exchange Traded Fund —2.5%	Money Market—54.5%		

Other Managers

HIM #12— 100% IJH-Ishares Core S&P Mid-Cap ETF

HIM #9— 100% fund

HIM #1— 85% Fund /5% High yield fund/5% High yield fund//5% High yield fund/

HIM #29— 50% real estate mutual fund/ 25% Fund/ 25% Fund

HIM #22— 100% fund

HIM #25— 50% fund 50% Money Market

HIM #8— 100% QQQ

HIM #26— 45% Money Market /30% VP Bull/25% S&P

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 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 iShares MSCI Emerging Markets ETF (EEM). In the top panel we can see how emerging markets made a higher low in December after making their low in November, a positive sign. As we've entered 2019, EEM has broken decisively above its 50-day moving average **(blue line)**, another encouraging development. The lower panel shows the price of EEM relative to the S&P 500 index, the rising line **(purple line)** shows EEM outpacing the S&P 500 and showing relative strength.

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