HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary   http://horterinvestment.com/   October 9, 2017

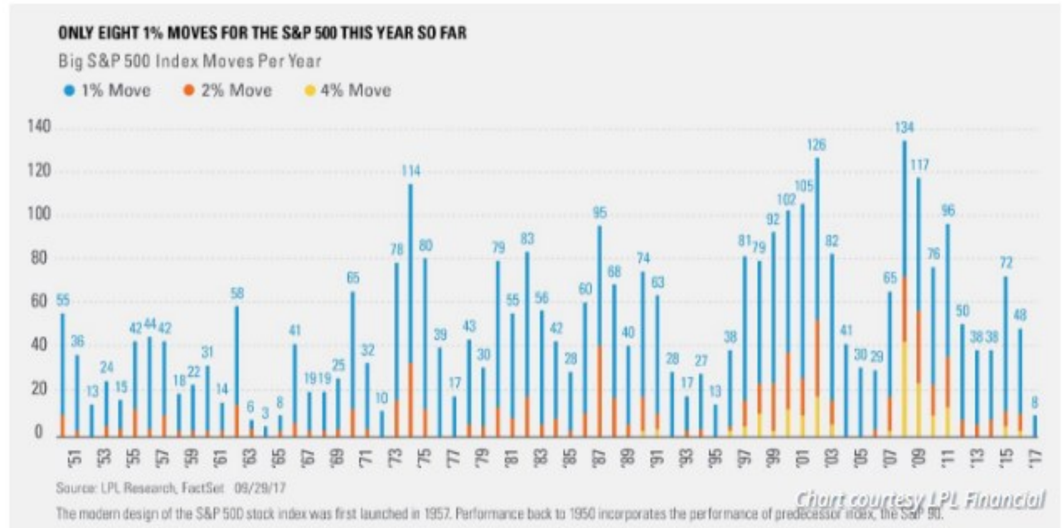
Enjoying the calm market? Don't expect it to last forever

It has been more than 20 months since the last market correction. They usually happen every 11 months.

The U.S. stock market has been good to investors this year—not only has it hit a series of records, but dips as small as even 3% have been in incredibly short supply—but anyone wanting to jump into the market should realize the good times may not last.

Wells Fargo Investment Institute warned that investors "shouldn't become too complacent" because the current environment is atypical in its lack of volatility and share-price declines, noting it has been much longer than was usual since the market saw a pronounced dip (a decline of at least 5% from a peak), let alone a correction (a 10% drop).

"Historically speaking, on average, the domestic equity market corrects every 11 months—the last correction was in November 2015," wrote Chris Haverland, a global asset allocation strategist at Wells Fargo Investment Institute. "Meanwhile, on average, the U.S. equity market dips three to four times per year. The last dip was in June 2016."



In addition to the nearly nonexistent downside, market volatility has also been hard to come by. Thus far this year, the S&P 500 SPX, -0.11% has only closed with a 1% move in either direction in eight sessions. That's on track to be the fewest such moves since 1995, when there were 13, according to data from LPL Financial. A larger move, such as a 4% swing in a day, hasn't occurred in nearly six years.

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Is this the calm before the storm? Watch what the Federal Reserve does in the coming months. - Drew

Inflation data, Fed minutes take center stage this week

Investors will get fresh data this week on inflation, consumer confidence and retail sales and pore over the minutes of last month's Federal Reserve meeting for clues about the timing of the central bank's next interest rate hike.

The incoming economic data could be affected by the short-term impact of Hurricanes Harvey and Irma, which caused significant business disruptions in Texas and Florida.

The minutes of the Fed's Sept. 19-20 meeting, set for release Wednesday, are likely to "reflect the amount of debate among participants about recent inflation weakness," says Lewis Alexander, economist at Nomura.

After last month's meeting, Fed members expressed uncertainty as to why inflation levels have not picked up and remain weak. A key underpinning of the Fed's decision-making regarding rate hikes are signs that inflation is moving back up toward its 2% target. But inflation remains soft. Still, Wall Street is pricing in a 92% chance that the Fed will hike interest rates for a third time this year at its final meeting in December.

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With a 92% probability of an interest rate rise in December, the Fed would be lucky if the current trends lower inflation. –Drew

QUOTE OF THE WEEK

"If opportunity doesn't knock, build a door."

- Milton Berle

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 6, 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 17.48% year to date.

Market Perspectives (through 10/01/2017)

60/40 Allocation: 9.58 % YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 13.87% 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)*	970.90	8.33	0.87%	27.50	2.91%	152.70	18.66%
Dow Jones Industrial Average	22773.67	368.58	1.65%	966.03	4.43%	3011.07	15.24%
S&P 500 Index	2549.33	29.97	1.19%	83.79	3.40%	310.50	13.87%
Nasdaq Composite Index	6590.18	94.22	1.45%	196.87	3.08%	1207.06	22.42%
S&P MidCap 400 Index	1818.43	22.49	1.25%	98.76	5.74%	157.85	9.51%
Russell 2000 Index	1510.22	19.36	1.30%	108.02	7.70%	153.09	11.28%
MSCI EAFE Index (EFA)	68.43	-0.05	-0.07%	1.48	2.21%	10.70	18.53%
MSCI Emerging Markets Index (EEM)	45.63	0.82	1.83%	0.77	1.72%	10.62	30.33%
Markit iBoxx USD Liquid High Yield Index*	269.28	0.40	0.15%	2.02	0.76%	16.15	6.38%

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

Term of the Week:

Preference Shares

Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. If the company enters bankruptcy, the shareholders with preferred stock are entitled to be paid from company assets first. Most preference shares have a fixed dividend, while common stocks generally do not. Preferred stock shareholders also typically do not hold any voting rights, but common shareholders usually do .

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Domestic equities continued to ride a wave of momentum, with the S&P 500 posting eight consecutive positive days before jobs data snapped the streak on Friday. Developed foreign markets were down slightly for the week, while emerging markets were sharply higher. Stock market volatility has been nonexistent in recent weeks as evidenced by the CBOE Volatility Index (VIX), which hit an all-time low. Among US equity sectors, Financials and Materials stocks posted the best weekly performance, while Energy sputtered as oil prices dropped.

Fixed Income: The benchmark 10-Year US Treasury Note yield was relatively unchanged during the week at 2.36%. Domestic high yield bonds continued to be in demand, pushing spreads down to 3.52%, their lowest levels since July of 2014. Spreads on BB bonds are now back at pre-financial-crisis territory, trading at their lowest levels since 2007 at just 2.08%. High yield bond mutual funds and ETFs registered $646 million in inflows during the weekly period ended October 4th.

Commodities: US West Texas Intermediate (WTI) Crude Oil prices slipped below $50, also breaching their 200-day moving average, amidst oil's steepest weekly decline since May. Despite OPEC's attempt to recruit additional nations into the cartel's production cut pact, output has risen due to increased activity out of Libya and Nigeria. Domestic crude output also hit a two-year high, and US drillers are displaying a renewed interest in initiating new projects due to the combination of stabilizing prices and widely available, cheap debt.

WEEKLY ECONOMIC SUMMARY

Hurricanes crush September jobs: There was a great deal of uncertainty over the potential impact from Hurricanes Harvey and Irma on the September payroll numbers, which came in negative for the first time since 2010 at -33,000. Despite the headline miss, the underlying data suggest this is just a temporary blip with most of the job losses coming from the leisure and hospitality sectors due to the storms. The unemployment rate fell to 4.2%, the lowest level since February of 2001. Wages increased 0.5% month-over-month and the participation rate rose from 62.9% to 63.1%.

ISM Manufacturing at 13-year high: The Institute for Supply Management's Manufacturing Index surged to a 60.8 reading, its strongest level in well over a decade. New orders rose to a 64.6 reading, a four-year high.

Japanese economic growth strengthens Abe's hand: Japanese economic growth has been positive for 57 consecutive months, tying the period from 1965-1970 for the second longest streak of expansion. With snap elections looming later this month, the strong economic data is further validation for Prime Minister Shinzo Abe's "Abenomics" stimulus measures, and should bolster his chances for reelection.

Current Model Allocations

Last Week's Manager Moves

HIM #22 — Bought 100% QQQ on 10/2

HIM #14 – Sold 25% Long Bond on 10/2; Bought 25% Long Bond on 10/3; Sold 25% Long Bond on 10/4; Sold 50% Long Bond and bought 50% Long Bond on 10/5; Sold 50% Long Bond and bought 50% Long Bond on 10/5

Low Risk

HIM #7	100% short and intermediate-term treasury bonds
HIM #2	25% municipal bonds/75% ATMSX
HIM #1	15% high yield/85% ATCSX
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 equi ty 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	80% (16) stocks/20% cash
HIM #21	25% long real estate/75% alternative equity 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 S&P 400 Mid Cap index breaking-out (orange oval) into record territory, last Monday, above its July high (blue line). Mid-Caps, like Small-Caps, have heavier weightings in financial companies and are more closely tied to the health of the US economy, which is doing well.

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