HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ February 19, 2019

Gundlach: Last year's market selloff was just a 'taste of things to come'

Late last year, the S&P 500 (^GSPC) tumbled 20% from its Oct. 3 intraday high to its Dec. 24 intraday. And despite the market's sharp 17% rally from those lows, Bond king Jeffrey Gundlach says we're in a bear market and that we could see new lows.

"A bear market has nothing to do with this 20% arbitrary thing," Gundlach, the CEO of $121 billion DoubleLine Capital, told Yahoo Finance in an exclusive interview. "It has to do with something crazy happening first, and then the crazy thing gives it up. And yet more traditional things continue to march on. But one by one they give it up."

That crazy thing: bitcoin.

"Bitcoin going from zero to 20,000 in a straight line," Gundlach said. "It was crazy."

"You knew it was crazy, because other things started to happen that we're truly insane," he added. "There was a thing called Crypto Kitties. It wasn't a crypto currency. It was a collectible, but it had the word 'crypto' in it. They were each unique, but there were cartoon drawings of cats. There was actually a moment where one sold for over $100,000. Of course, they're worth zero today."

"That is a sign."

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Retail sales were so bad, it's either suspect data or a recession warning

- Retails sales plunged 1.2 percent in December, shocking economists who expected a 0.2 percent gain.

- The report immediately raised new fears of recession, but economists said the report is also so negative against other more positive data, that it appears suspect.

- Even so, economists are slashing fourth quarter GDP growth estimates, and also keeping a wary eye on jobless claims, which showed a slight increase for a third week in a row.

- The drop in sales raised new concerns about the consumer, which accounts for more than two-thirds of the economy.

The sudden and unexpected plunge in December's retail sales data raised new concerns about a recession, but economists also say the biggest drop in nine years clashes with other data and may be suspect.

But nonetheless, Wall Street still took the data seriously and economists slashed fourth quarter GDP forecasts. JP Morgan cut its growth estimate to 2 percent from 2.6 percent.

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QUOTE OF THE WEEK

"The financial crisis revealed important weaknesses in many areas of our financial system"

- Jerome Powell

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 February 15, 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 7.81% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	25,883.25	3.09	6.06	10.96
S&P 500 Index	2,775.6	2.51	5.42	10.72
Nasdaq Composite Index	7,472.41	2.38	6.44	12.62
60/40 Portfolio (BAGPX)	12.32	1.48	3.88	7.22
US Aggregate Bond Index	2,069.13	-0.09	0.84	1.1
20+ Year Treasury Bond (TLT)	121.98	-0.3	1.34	0.39
MSCI EAFE (EFA)	63.62	2.58	4.09	8.23
MSCI Emerging Markets (EEM)	42.09	-0.19	3.09	7.76
France CAC Index (EWQ)	28.65	3.21	6.27	10.32
Germany DAX Index (EWG)	26.7	3.05	1.99	5.33
Italy Borsa Index (EWI)	26.47	3.44	4.05	9.33
London FTSE (EWU)	32.22	1.67	5.29	9.78

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Accelerator Theory

is an economic postulation whereby companies' investments increase when either demand or income increases. The theory also suggests that when there is an excess of demand, companies can meet the demand in two ways; either decrease demand by raising prices or increase investment to meet the level of demand. The accelerator theory posits that companies typically choose to increase production, thereby increasing profits. This growth, in turn, attracts additional investors who also accelerate growth.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: The prevention of another government shutdown helped all three major US stock indices gain over 2% on the week despite continued softening of US economic data. White House rumblings of a deadline extension in China trade talks also helped boost the Dow Jones Industrial Average, which led the large-cap indices higher thanks to outperformance in the Industrial sector. It was the Russell 2000 Index representing small-cap stocks that really shined, however, gaining nearly 4% on the week. Developed International stocks represented by the iShares MSCI EAFE Index Fund ETF (EFA) performed similarly to US large-caps, while Chinese economic data weighed on Emerging Market stocks and the iShares MSCI Emerging Market Index ETF (EEM) was almost unchanged on the week.

Fixed Income: The yield on the 10-year US Treasury Note climbed slightly to 2.66% from 2.63% at the end of the prior week. It was a curiously slight move highlighting the continued risk aversion of many investors despite the strength of equity markets during the week and since the beginning of the year. It was another solid return week for credit, emphasized in the below Chart of the Week, with yield spreads over comparative Treasury securities tightening further and the iShares IBoxx High Yield Corporate Bond ETF (HYG) gaining another .71%. Lipper reported net inflows into high yield funds of $728 million for the week ended 2/13.

Commodities: The world's largest oil field, Safaniyah in Saudi Arabia, is producing at reduced capacity after a ship's anchor cut a main power cable, per Reuters. This has added to lower supply-boosted prices after early-week production numbers from Saudi Arabia confirmed that they are over-committing to the production cuts agreed to by OPEC+. With no end in sight to the turmoil in Venezuela, crude oil continued higher, with the West Texas Intermediate (WTI) benchmark gaining another 5.6% to $55.74 per barrel, while the International Brent crude benchmark gained nearly 7% to close near $66.38 per barrel. Natural gas prices were mostly stable during the week, ending near $2.63/MMBtu.

WEEKLY ECONOMIC SUMMARY

Weak Retail Sales: The US Census Bureau reported the steepest monthly decline for retail sales since 2009, dropping 1.2% for the month of December. The measure missed the .1% consensus estimate and was much worse, -1.8%, without the significant boost from auto sales. Building materials was the only other major component besides auto sales to be positive for the December reading which is causing Q4 GDP estimates to be slashed. The Federal Reserve of Atlanta cut its own estimate for real GDP from 2.6% to 1.5% on the same day of this release due to the heavy weighting of consumption on economic growth.

Chinese Lending Surge: Accompanying softening inflation data, reports from the People's Bank of China (PBOC) included a record 3.23 trillion yuan ($477B) jump in new loans during the month of January. It appears that Chinese banks are wasting no time injecting liquidity since the PBOC reversed course at the end of 2018 by encouraging credit supply growth and lowering reserve requirements to try and boost the sluggish economy. Although spiking because of front-loading due to early year battling for market share of the most credit-worthy borrowers, the easy monetary policy is expected to continue as to offset slowing due, in part, to uncertainty surrounding the trade war.

Q4 Earnings Season: It was a good week for Cisco Systems (CSCO), the networking hardware manufacturer beat on the top and bottom line while investors were rewarded with a near 4% pop and promises of an increased dividend and share buybacks. Shareholders of fellow tech hardware and chip maker Nvidia Corp. (NVDA) were also greeted with a higher price post earnings of $.80/share versus $.75 expected, as the company insisted that its customer base was not shrinking with the decline in crypto currency enthusiasm. A different kind of chip maker, Frito-Lay parent Pepsico Inc. (PEP) set itself apart from rival Coca-Cola Co. (KO) with growth in North American soft-beverage sales. PEP stock rebounded on Friday after its earnings announcement, a day after KO was smoked with over an -8% drop that had dragged PEP lower as well.

Data Source: Hanlon Investment Management

Current Model Allocations

Tactical Fixed Income Model Allocations

2/15/2019

Cash—5%	Exchange Traded Fund —39%	Exchange Traded Fund —10%	Exchange Traded Fund —5%
Exchange Traded Fund —4%	Exchange Traded Fund —5%	Exchange Traded Fund —3%	Exchange Traded Fund —2.5 %
Exchange Traded Fund —5%	Exchange Traded Fund —5%	Money Market—16.5%	

Other Managers

HIM #9 —	100% fund	HIM #8 —	100% trust
HIM #22—	67% fund/33% Money Market	HIM #26—	32.5% Money Market/30% VP Bull/25% S&P/12.5% Nasdaq
HIM #25—	50% fund/50% Money Market		

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.

Data Source: Hanlon Investment Management

Chart of the Week:
The Chart of the Week shows the iShares iBoxx High Yield Corporate Bond ETF (HYG) continuing its strong start to 2019. The Federal Reserve effectively sunsetting quantitative tightening has combined with low default rates and limited issuance to defy credit naysayers and propel this high yield corporate bond proxy to new 52-week highs on a total return basis.

National Headquarters | 11726 Seven Gables Road | Symmes Township | Cincinnati | OH | 45249
P: (513) 984-9933 | F: (513) 984-5219