HORTER INVESTMENT MANAGEMENT, LLC

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It's Now or Never for the 2018 Stock Market, Which Seems Immune to Any Good News

What do we call a stock market for which good news is never good enough to hold off the sellers, where every excuse to look on the bright side goes unused, where the half-full glass always seem to spill by the close of trading? This is the market we have, and some would call it a bear.

Certainly, this kind of behavior is what prevails during bear markets. But it's also how a market would act during a complex, late-cycle correction that might or might not lead to serious and long-lasting declines.

Since October, the following promised "bullish catalysts" failed to support the indexes: a third-straight 20 percent annual gain in reported corporate profits, the re-opening of the "stock buyback window," the passage of the mid-term elections which "always" leads markets higher, a dovish turn in Fed messaging, a trade truce with China and the onset of the bullish November-December seasonal phase.

The market has likewise been unable to capitalize on periodic "oversold" readings to generate a sustainable or convincing rally. The S&P 500 closed Friday at the very bottom of its correction range after finishing lower than it opened each of the past four days.

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Trump Says 'It is Incredible' That the Fed is Considering Hiking Interest Rates Again

President Donald Trump took another shot at the Federal Reserve on Monday, saying he thinks "it is incredible" that "the Fed is even considering yet another interest rate hike."

The Federal Open Market Committee (FOMC) is meeting this week to set interest rates. The U.S. central bank is widely expected to hike rates following the meeting, which would be its fourth hike this year.

Trump has openly criticized the Fed, as well as Chairman Jerome Powell, multiple times this year. The president has gone so far as to say the Fed has "gone crazy" with monetary policy, and thinks "the rate's too high."

"I think we have much more of a Fed problem than we have a problem with anyone else," Trump said in November.

Click here to read more.

QUOTE OF THE WEEK

"People fall forward to success"

- Mary Kay Ash

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 December 14, 2018. 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 -9.68% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	24100.51	-1.17%	-3.60%	-0.28%
S&P 500 Index	2599.95	-1.22%	-3.55%	-0.90%
Nasdaq Composite Index	6910.66	-0.82%	-3.07%	1.15%
60/40 Portfolio (BAGPX)	11.87	-0.92%	-1.00%	-9.32%
US Aggregate Bond Index	2028.62	0.06%	1.33%	-0.87%
20+ Year Treasury Bond (TLT)	118.48	0.06%	3.85%	-6.22%
MSCI EAFE (EFA)	60.46	-0.48%	-3.56%	-14.01%
MSCI Emerging Markets (EEM)	39.83	-0.13%	-0.25%	-15.47%
France CAC Index (EWQ)	26.97	-0.26%	-5.00%	-13.61%
Germany DAX Index (EWG)	25.58	-0.31%	-5.96%	-22.53%
Italy Borsa Index (EWI)	24.91	0.65%	-1.07%	-18.17%
London FTSE (EWU)	30.13	-0.56%	-6.02%	-15.88%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Watchlist

A watchlist is a list of securities being monitored for potential trading or investing opportunities. An investor or trader may create a watchlist of several, dozens or even hundreds of trading instruments to make more informed and opportune investment decisions. A watchlist can help an investor track companies and stay abreast of financial or other news that could impact these instruments. Typically, the investor monitors the list, waiting for certain criteria to be met &mdash such as trading over a certain volume, breaking out of a 52-week range, or moving above its 200-day moving average —before placing trade orders.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: More optimism surrounding China's willingness to negotiate on trade was overshadowed by softening Chinese industrial production and retail data which again caused concerns about a global economic slowdown. All three major US equity indices faded late in the week, with the Nasdaq Composite holding up better, losing -.96% on the week, followed by the Dow Jones Industrial Average and the S&P 500, down -1.17% and -1.45%, respectively. Financials were again the weakest sector despite a slightly steeper yield curve, as the Select Sector Financial SPDR ETF (XLF) lost another -3.46% on the week which marked a new 52-week low. International equities again outperformed their US counterparts, as International Developed equities and the iShares MSCI EAFE Index ETF (EFA) lost only -.52%, while Emerging Market equities represented by the iShares MSCI Emerging Market Index ETF (EEM) fell a mere -.1% on the week.

Fixed Income: Treasury yields began to rise at the beginning of the week with US equities starting to gain traction to the upside as well. However, when equities fell late to test the prior week's lows, the yield on the 10-Year US Treasury Bond did not fall to the prior low below 2.85%. After reaching a mid-week high of 2.915%, the 10-Year yield held firm near 2.89%. Shorter maturity Treasuries had relatively more buying pressure, pushing the term spread (10-Year vs. 2 Year) from .12% to .15% to close the week. High yield bond spreads over equivalent Treasury securities widened late to stay mostly unchanged for the week, as Lipper reported high yield fund outflows of -$2.06B for the week ended December 12th.

Commodities: Oil prices traded down to close out a choppy week of contrasting headlines surrounding production cuts and global growth. Disappointing economic data out of China forced crude to succumb to downward pressure, but prices did not break below late-November lows for the major benchmarks. The American West Texas Intermediate (WTI) benchmark closed the week down around 3%, near $51 per barrel, while the International Brent crude benchmark fell 2.5%, to $60 per barrel. Natural gas prices continued to fall from the recent highs, down 15% from the prior week, closing near $3.80/MMBtu.

WEEKLY ECONOMIC SUMMARY

Consumer Price Index (CPI): The CPI, an inflation measure released by The Bureau of Labor Statistics, records the average price level change of a fixed basket of goods and services purchased by consumers. November's release was in line with consensus estimates, with no month-on-month (MoM) change and a 2.2% increase on a year-on-year (YoY) basis. The exclusion of price changes for food and energy contributed to a rise of .2% MoM and 2.2% YoY in the Core CPI measure, which was also in line with consensus estimates. Prices for shelter and medical care were mostly responsible for the increase, however, these reports are not putting significant pressure on the Federal Reserve to continue raising rates in 2019.

Jobless Claims: Initial jobless claims, which are compiled as the number of individuals who filed for unemployment insurance for the first time, dropped considerably for the most recent reading for the week ending December 8th. After swinging higher since the September lows, the measure of 206,000 new claims brings the 4-week moving average down to 224,750 from the prior 228,500. The continued strength in this measure of labor market health may help ease concerns of deteriorating economic fundamentals with a financially healthy consumer base.

PMI Composite FLASH: The early estimate for the Purchasing Managers' Index Composite surprised to the downside, coming in at 53.6 for the month of December versus a 54.4 for November. The weakness of this survey-driven gage of private sector output signals softening in service sector's output and orders, with the manufacturing sectors respondents' lowered optimism and employment. Falling oil prices have lessened concerns surrounding rising input prices due to tariffs, but waning optimism of the global outlook is a cause for concern.

Current Model Allocations

Tactical Fixed Income Model Allocations
12/14/2018

Cash—5%	Energy Limited Partnership—5%	Exchange Trade Fund —5%	Exchange Trade Fund —5%
Treasury Bond—10%	Exchange Trade Fund —5%	Exchange Trade Fund —5%	Exchange Trade Fund —10%
Exchange Trade Fund —5%		Money Market—45%	

Other Managers

HIM #12—	66% fund/ 34% CASH
HIM #9—	100% fund
HIM #1—	85% fund/5% high yield fund/ 5% high yield fund/ 5% high yield fund
HIM #19—	50% real estate mutual fund/ 50% fund
HIM #22—	100% fund Money Market
HIM #23—	33.33% fund/ 33.33% fund/ 33.34% MINT
HIM #25—	50% Money Market/ 50% fund
HIM #8—	100% trust
HIM #26 —	50% NASDAQ 100/ 25% 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) relative to the SPDR S&P 500 ETF (SPY). China makes up approximately 30% of EEM by capitalization and therefore has a large effect on how emerging markets funds perform. The relative strength of emerging markets versus the US market suggests that the investors are sensing a US-China trade deal probability that is high-

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