HORTER INVESTMENT MANAGEMENT, LLC

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Fed member James Bullard challenges the idea that recession is inevitable

Federal Reserve member James Bullard told CNBC that traders should not be waiting for an "inevitable recession" and spoke of a solid outlook for the U.S. economy.

"We should always plan for the worse and hope for the best. I think the idea that you're inevitably going to have a recession just because you've had an expansion for a while is not really right," Bullard told CNBC's "Squawk Box Europe."

"The U.S. expansion, the growth rate has been very slow since the financial crisis ... The level of output is actually quite a bit below where it would be if you had a more normal expansion so that kinda argues for the idea that maybe the expansion can go on for a while longer."

The latest growth rate numbers out of the U.S. pointed to an economic expansion of 4.1 percent in the second quarter of the year — the highest in nearly four years. At the start of May, data showed that the U.S. economy had entered its second-longest economic expansion on record, but also the slowest in the post-war period.

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The Trump administration is headed for a gigantic debt headache

Over the short term, the debt issue likely will be superseded by other news, particularly the strong burst of growth and the tariff battles the U.S. has launched against its trading partners around the world. Ironically, the Trump administration has promised that breakout economic performance will help take care of the rising debt load brought on by tax cuts and higher spending, but the early results don't seem to bear those hopes out.

"Booming economic growth has not been sufficient to lower the budget deficit — in fact, the deficit and Treasury borrowing are headed sharply higher, and virtually no one in Washington seems to care," Greg Valliere, chief global strategist at Horizon Investments, said in his daily note Thursday.

Indeed, the Congressional Budget Office projects the deficit to be just a shade under $1 trillion in 2019 and then pass that level in 2020 and eclipse $1.5 trillion by 2028. The cost to finance all that debt has continued to grow, hitting $458 billion in fiscal 2017 and already at $415 billion in 2018 with three months left in the fiscal year.

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QUOTE OF THE WEEK

"The reward of suffering is experience."

-Harry S Truman

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 August 6, 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 6 indices to get a better overall picture of the market. The combined average of all 6 indices is 2.90% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
S&P 500 Index	2840.35	0.80%	4.83%	7.40%
Dow Jones Industrial Average Index	25449.01	0.05%	5.33%	3.01%
Nasdaq Composite Index	7394.57	0.96%	4.12%	13.16%
60/40 Portfolio (BAGPX)	13.35	0.23%	2.38%	1.99%
US Aggregate Bond Index	2015.66	0.14%	0.03%	-1.45%
20+ Year Treasury Bond (TLT)	119.22	-0.20%	-2.28%	-5.64%

Data Source: Investors FastTrack, Yahoo Finance

Term of the Week:

Market Basket

A market basket is a subset of products or financial securities designed to mimic the performance of a specific market segment. For investors, the market basket is the principal idea behind index funds, which are essentially a broad sample of stocks, bonds or other securities in the market; this provides investors with a benchmark against which to compare their investment returns.

Another popular market basket relates to the Consumer Price Index (CPI), which tracks various consumer goods and looks at the price levels of consumer products, providing an estimate for inflation.

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Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Trade war jitters bubbled up again during the week, with both the US and China announcing increased tariffs that caused the Dow Jones Industrial Average to underperform the other major US equity indices. It was far from a blood-bath, however, as the Dow Jones nearly unchanged from the prior week, while the Nasdaq Composite and the S&P 500 indexes gained around .9% and .6%, respectively. The Real Estate sector was the S&P's strongest performer, with the SPDR Select Sector ETF (XLRE) gaining over 3% during the week, while Exxon Mobil (XOM) dragged the Energy sector down, as the SPDR Select Energy Sector ETF (XLE) lost 1.8%. The trade war rhetoric also bruised International equities this week, as the iShares MSCI Emerging Markets Index ETF (EEM) and the International Developed market iShares MSCI EAFE Index Fund ETF (EFA) both dropped around 1%.

Fixed Income: The yield on the US 10-Year Treasury Note spent a consecutive week testing the psychological 3% barrier, before again turning back, closing the week down slightly at 2.955%. The required yield for speculative grade bonds over Treasury securities tightened further during the week, near 3.3%. The iShares iBoxx High Yield Corporate Bond ETF (HYG) finished the week unchanged, after July's distribution nearly $.37 per ETF share. Lipper reported net inflows into corporate investment grade and high yield funds of $1.211 billion and $.037 billion, respectively.

Commodities: The American oil benchmark, the West Texas Intermediate (WTI) was largely unchanged for the week as the International Brent crude benchmark fell $1 to $73.40 per barrel. The price fluctuation differential led to the spread tightening from the prior week, as President Trump hadn't threatened any major oil producers, namely Iran, over Twitter. Natural gas prices were again higher, closing the week near $2.85/MMBtu.

WEEKLY ECONOMIC SUMMARY

Personal Income & Outlays: Indicating continued health for the US economy, consumer spending was in line with consensus estimates for June, with a .4% month-on-month (MoM) increase, according to the Bureau of Economic Analysis (BEA). Personal income also rose by .4% for the same period, after being revised higher to .5% from .2% for the prior period. Personal Consumption Expenditures (PCE), a measure of inflation, came in below the consensus range at 2.2% year-on-year (YoY). Core PCE, the favorite measure of inflation for the Federal Reserve (Fed) which excludes food & energy, was also reportedly below consensus, which may signal an easing of recent inflation pressure.

Employment Situation: The MoM increase of 157,000 to non-farm payrolls was well below the consensus estimate of 190,000 for July, while June's figure was revised higher to 248,000 from 213,000. Despite the miss, the increase in payrolls was enough to drop the unemployment rate back below 4% once again, to 3.9%. The participation rate was maintained from the jump during the prior period, flat at 62.9%. The average hourly earnings and the average work week were in line with consensus estimates, at .3% MoM and 34.5 hours respectively.

Q2 Earnings Season: While Apple Inc. (AAPL) stock reached over $1 trillion of market capitalization thanks to its continued strong earnings, another Dow Jones component quietly surprised with strong results of their own. Caterpillar Inc. (CAT) had a record setting Q2 with earnings per share of $2.82, beating estimates by nearly 9%, while also substantially raising its full-year guidance. This, despite higher costs that are expected to continue due to the trade war, which CAT says it will offset with higher prices as business with China remains strong. CAT also announced a 10% increase to the quarterly dividend, and a continued pace of share buy-backs that have led to $1.25 billion of stock being repurchased so far this year.

Current Model Allocations

Tactical Fixed Income Model Allocations

8/03/2018

Cash—52.99%	Merging Market Bonds—7.69%	Treasury Bond—8.88%
Inverse High Yield—17.32%	Convertible Bonds—20%	Fund— 4.44%
Preferred Stock—4.00%	Energy—6%	Long Term Bond—20%

Other Managers

HIM #12—100% treasury bond

HIM #9—80% alternative equity mutual fund 20% Cash

HIM #1—85% fund 5% high yield fund 5% high yield 5% high yield fund

HIM #21—25 % Cash 75% real estate mutual fund

HIM #19—50% Cash 50% real estate mutual fund

HIM #10 —.16% Cash 99.84% Equities (48 equities)

HIM #15 —100% Invested

HIM #20 —2% Cash 10% short term high yield 10% high yield 14% high yield corporate bond 15% ultra short bond 15% floating rate bond 17% high yield bond 17% high yield corporate bond

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.

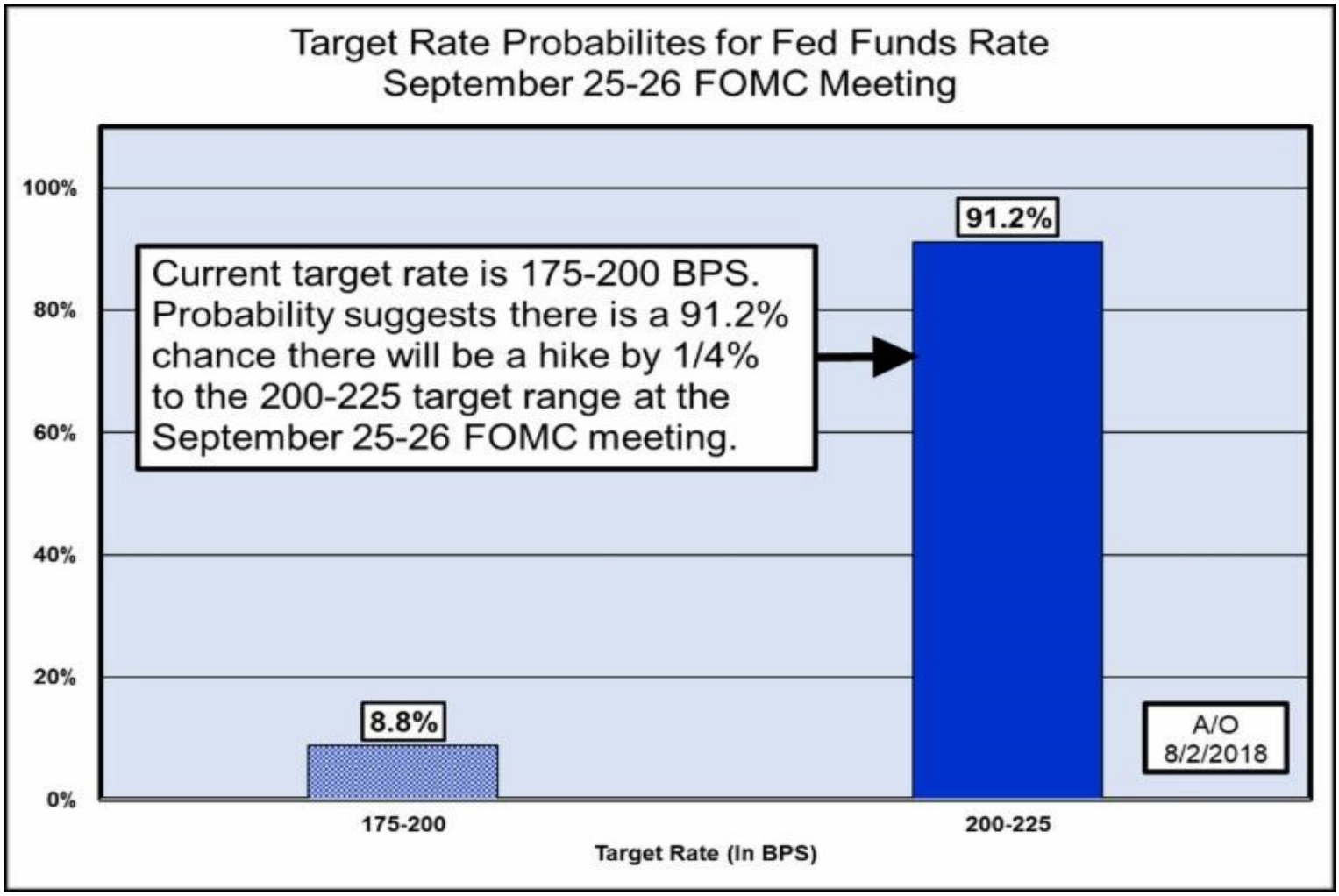

Chart of the Week:

The Federal Open Market Committee (FOMC) wrapped up their July/August meeting on Wednesday of last week, leaving the benchmark Federal Funds rate unchanged, as expected. The Chart of the Week below shows the target rate probabilities for the FOMC's next meeting on September 25th & 26th, indicating there is a 91.2% chance of a ¼% rate hike. But the pause in rate hikes at this meeting may be the pause that refreshes, particularly after the strong 4.1 % 2nd quarter GDP print the previous week and with the Atlanta Fed announcing on Thursday that its GDP model is forecasting a very strong 5% GDP number in the 3rd quarter. This could