Weekly Market Commentary
February 8, 2016

HORTER
Investment Management, LLC

Week in Review:

The Dow Jones Industrial Average fell 261 points to close the week with down -1.6% at 16,205. The S&P 500 Index dropped 60 points to end the week with loss of -3.1%, closing at 1,880.

The Nasdaq Composite was off -5.4% to end the week at 4,363. The S&P MidCap 400 Index closed the week at 1,279, for a loss of -2.9%. The Russell 2000 declined -4.8% to end the week at 986.

The ETF "EFA", the proxy for developed international equity markets, finished down -3% for the week. Emerging markets, as represented by the ETF "EEM", closed out the week with a loss of -1.8%.

Domestic high yield corporate bonds slipped -1.1% for the week, as measured by the Bank of America Merrill Lynch US High Yield Master II Index.

Global equity markets sold off early in the week and continued down Friday as oil prices fell sharply and economic data provided investors with little comfort. US Treasury prices rose, driving the yield on the benchmark 10-year US Treasury note down to 1.85%. After several weeks trading at parity, oil benchmarks West Texas Intermediate (WTI) and Brent Crude have diverged, with the international benchmark Brent trading at a premium to US WTI. WTI prices briefly fell back below $30 before recovering to end the week around $31.33. Brent finished around $34.47. Data from the US Energy Information Administration (EIA) showed a much higher-than-expected weekly increase of 7.8 million barrels in storage, pushing US inventories over 500 million barrels. Despite the historic crash in oil prices, US production has remained near all-time highs, bringing about logistical concerns about where to store all of the crude being produced. Cushing, Oklahoma, the delivery point for most domestically-produced oil, reported 64 million barrels in storage, which translates to 87% capacity, in November. Due to the high infrastructure costs associated with storing oil, there is a risk of sharp spikes to the downside in the price of oil if stockpiles exceed existing storage capacity.

High yield bond prices fell, driving the Effective Yield on the Bank of America Merrill Lynch US High Yield Master II Index up to 9.45%. Lower credit quality debt posted the sharpest declines, driving the yield on CCC-rated bonds up above 20% for the first time since June of 2009. The yield spread between the least risky (BB) and most risky (CCC) bonds in the high yield index increased to 13.87%, the widest differential since April of 2009. Rating agencies have continued to hammer high yield issuers from the energy and materials sectors. Thus far in 2016, S&P has issued 86 high yield downgrades, with 44 coming in the energy and materials sectors. High yield bond mutual funds and ETFs still managed to post a slight net inflow of $41 million for the weekly period ended February 3rd. New issuance was up in the week ended January 29th, with $3.4 billion issued across four transactions. The bulk of the issuance was $2.4 billion in bonds issued by healthcare services firm Centene to fund the acquisition of Health Net.

In US economic news, reaction was mixed to the January jobs report. The unemployment rate came in below 5%, at 4.9%, but nonfarm payrolls rose just 151,000 compared to an expected 188,000. Other measures, such as a participation rate of 62.7% and an average workweek of 34.6 hours, surprised to the upside. Both doves and hawks at the Federal Reserve will find something in the jobs data to support their views, but the market clearly took the report as further ammunition for the hawks. 30-Day Fed Fund futures prices implied around a 20% chance of a 2016 rate hike prior to the jobs data but the likelihood rose to near 50% after the report. Investors still think that the rate hike will be delayed until later in the year, however, as the futures prices imply less than a 10% chance of a March rate increase. In other economic data, the ISM Manufacturing Index came in below 50 for a fourth consecutive month, at 48.2. Any reading below 50 indicates contraction in manufacturing activity.

In international news, the European Commission trimmed its 2016 growth forecast for the 19-nation region from 1.8% to 1.7%. The commission also projected an inflation rate of just 0.5%, half of what was forecast in November. The European Central Bank (ECB) is targeting a goal of just under 2% and aggressive stimulus measures look likely when the ECB meets in March. In Asian markets, Chinese manufacturing data showed activity contracting at the fastest pace since August 2012. January Service sector PMI data remained in expansionary territory but slowed from December's reading.
In corporate news, shares of drug makers Pfizer and Merck both rose on Tuesday after positive quarterly earnings. Exxon beat earnings estimates, but reported a -58% decline in profits

Horter Investment Management
8316 Cornell Rd
Cincinnati, OH 45249

Office: (513) 984-9933
Fax: (513) 984-5219
support@him-ria.com

Current Model Allocations

Low Risk	
HIM Model #7	100% bonds
HIM Model #2	95% municipal bonds/5% cash
HIM Model #1	100% invested (15% core high yield/85% ATCSX)
HIM Model #6	80% cash/10% high yield/10% short duration bonds
HIM Model #3	15% alternative bond strategies/15% long treasuries/28% cash/ 14% dividend equities/14% income funds/14% preferreds
HIM Model #4	100% cash
HIM Model #5	100% cash

Moderate Risk	
HIM Model #12	100% mid-caps
HIM Model #9	60% long NASDAQ/40% short S&P 500
HIM Model #8	100% long NASDAQ
HIM Model #13	100% cash
HIM Model #14	48% short treasuries/52% cash
HIM Model #10	100% cash
HIM Model #15	100% cash
HIM Model #11	60% invested (12 stocks)/40% cash

Weekly Market Commentary
February 8, 2016

HORTER
Investment Management, LLC

as low oil prices impacted quarterly results. Google parent company Alphabet also beat earnings estimates, sending shares up 5%. Shares of social networking site LinkedIn tumbled by as much as -40% on weaker-than-expected forward guidance.

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 5, 2016. 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 -9.14% year to date.

Market Perspectives (through 2/5/2016)

60/40 Allocation: - 4.16% YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: - 8.02% YTD **Barclays Agg:** 1.62% YTD

Weekly Update for the Week Ending February 5, 2016

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
Dow Jones Global Index	282.34	-6.28	-2.18%	-19.33	-6.41%	-25.63	-8.32%
Dow Jones Industrial Average	16204.97	-261.33	-1.59%	-953.69	-5.56%	-1220.06	-7.00%
S&P 500 Index	1880.05	-60.19	-3.10%	-136.66	-6.78%	-163.89	-8.02%
Nasdaq Composite Index	4363.14	-250.81	-5.44%	-528.29	-10.80%	-644.27	-12.87%
S&P MidCap 400 Index	1279.32	-38.42	-2.92%	-100.99	-7.32%	-119.26	-8.53%
Russell 2000 Index	985.62	-49.76	-4.81%	-124.82	-11.24%	-150.27	-13.23%
MSCI EAFE Index (EFA)	53.81	-1.67	-3.01%	-3.92	-6.79%	-4.91	-8.36%
MSCI Emerging Markets Index (EEM)	30.01	-0.56	-1.83%	-1.37	-4.37%	-2.18	-6.77%
BAML US High Yield Master II Index	972.65	-10.85	-1.10%	-26.83	-2.68%	-26.87	-2.69%

Above returns exclude dividends.
Data Source: Investors FastTrack

For a complete report on all the indices, we recommend that you go to www.HanlonInvest.com and click on the Financial Professionals tab, then click on Index Performance Report on the left-hand side under the Resources section.

QUOTE OF THE WEEK

"Be faithful in small things because it is in them that your strength lies." **- Mother Teresa**

Horter Investment Management
8316 Cornell Rd
Cincinnati, OH 45249

Office: (513) 984-9933
Fax: (513) 984-5219
support@him-ria.com

Current Model Allocations

Low Risk

HIM Model #7	100% bonds
HIM Model #2	95% municipal bonds/5% cash
HIM Model #1	100% invested (15% core high yield/85% ATCSX)
HIM Model #6	80% cash/10% high yield/10% short duration bonds
HIM Model #3	15% alternative bond strategies/15% long treasuries/28% cash/ 14% dividend equities/14% income funds/14% preferreds
HIM Model #4	100% cash
HIM Model #5	100% cash

Moderate Risk

HIM Model #12	100% mid-caps
HIM Model #9	60% long NASDAQ/40% short S&P 500
HIM Model #8	100% long NASDAQ
HIM Model #13	100% cash
HIM Model #14	48% short treasuries/52% cash
HIM Model #10	100% cash
HIM Model #15	100% cash
HIM Model #11	60% invested (12 stocks)/40% cash

Weekly Market Commentary
February 8, 2016

HORTER
Investment Management, LLC

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 7 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:

Per Vanguard - since 1980 global stock prices have spent almost 30% of the time in corrections or bear markets

Global stock prices (January 1, 1980—January 22, 2016)

Declines	Number	Average return	Average time from peak to trough	Average time from trough to recovery
Correction	12	–13.7%	87 days	121 days
Bear market	7	–33.4%	373 days	798 days

Horter Investment Management
8316 Cornell Rd
Cincinnati, OH 45249

Office: (513) 984-9933
Fax: (513) 984-5219
support@him-ria.com

Current Model Allocations

Low Risk

HIM Model #7	100% bonds
HIM Model #2	95% municipal bonds/5% cash
HIM Model #1	100% invested (15% core high yield/85% ATCSX)
HIM Model #6	80% cash/10% high yield/10% short duration bonds
HIM Model #3	15% alternative bond strategies/15% long treasuries/28% cash/ 14% dividend equities/14% income funds/14% preferreds
HIM Model #4	100% cash
HIM Model #5	100% cash

Moderate Risk

HIM Model #12	100% mid-caps
HIM Model #9	60% long NASDAQ/40% short S&P 500
HIM Model #8	100% long NASDAQ
HIM Model #13	100% cash
HIM Model #14	48% short treasuries/52% cash
HIM Model #10	100% cash
HIM Model #15	100% cash
HIM Model #11	60% invested (12 stocks)/40% cash

Weekly Market Commentary
February 8, 2016

HORTER
Investment Management, LLC

Articles of Interest

Are Passive Investors Taking On Far More Risk Than They Realize?

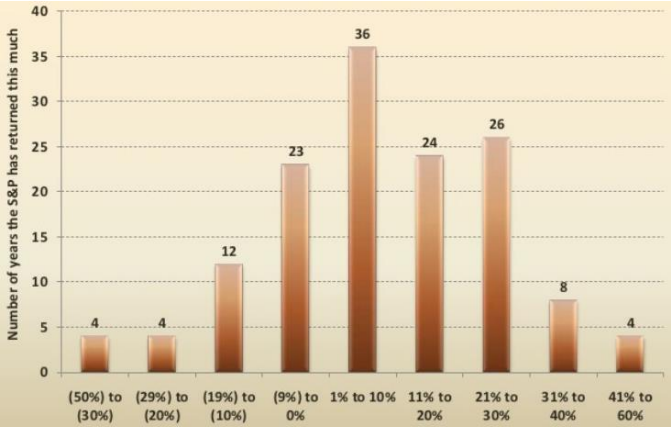
Market behavior suggests that an entire generation of passive investors is about to discover the downside risk of holding highly concentrated positions that have flown blind, free of price discovery.

In other words, "passive investing" will ultimately become a victim of its own success. The massive shift to index funds over the past 15 years or so drove the valuations of the largest index components to levels which guarantee poor returns going forward. Poor returns, in turn, will guarantee these inflows will turn to outflows and the virtuous cycle becomes a vicious one.

Click here to read more

How Much Does the S&P 500 Usually Return?

Average doesn't happen all of the time – beware the outliers!



Click here to enlarge the chart

How to Survive a Bear Market

This is not simply a correction. This is most likely a new BEAR MARKET. And that is probably an understatement. This could turn out to be a really nasty bear market. We do not know yet how this is going to end.
This is what characterizes bear markets:

- **Sellers are in control**
- **Oversold often stays oversold for a long time**
- **Markets drop a lot faster than they go up**
- **Bear markets burn and churn accounts with long only exposure**
- **Volume and liquidity can dry up but price can still drop significantly**
- **'Cheap' can get a lot 'cheaper'**
- **Hope is slowly destroyed**
- **Vicious bear market rallies try to suck in traders to trap them**
- **Expect lots of gaps to the downside**
- **It takes a long time until market participants throw in the towel**

Click here to read more

Diversity Doesn't Always Equal Diversification

Modern Portfolio Theory (MPT) is based first and foremost on the idea of correlations. When Harry Markowitz introduced his seminal work, "Portfolio Selection" in 1952, the key new concept he introduced and quantified was correlations. Markowitz was able to prove mathematically that if pairs of investments did not move in lock-step with one another, if the correlations between assets were low, then the overall volatility of a portfolio would be reduced. This is MPT in a nutshell.

And therein lies the rub. While it is true that uncorrelated investments will reduce risk, the flipside of that proposition is that highly correlated assets won't do much of anything to reduce risk. Portfolios comprised of small positions in many highly correlated ETFs won't have risk-return characteristics all too different than that of a single broad-based ETF.

Click here to read more

Horter Investment Management
8316 Cornell Rd
Cincinnati, OH 45249

Office: (513) 984-9933
Fax: (513) 984-5219
support@him-ria.com

Current Model Allocations

Low Risk	
HIM Model #7	100% bonds
HIM Model #2	95% municipal bonds/5% cash
HIM Model #1	100% invested (15% core high yield/85% ATCSX)
HIM Model #6	80% cash/10% high yield/10% short duration bonds
HIM Model #3	15% alternative bond strategies/15% long treasuries/28% cash/ 14% dividend equities/14% income funds/14% preferreds
HIM Model #4	100% cash
HIM Model #5	100% cash

Moderate Risk	
HIM Model #12	100% mid-caps
HIM Model #9	60% long NASDAQ/40% short S&P 500
HIM Model #8	100% long NASDAQ
HIM Model #13	100% cash
HIM Model #14	48% short treasuries/52% cash
HIM Model #10	100% cash
HIM Model #15	100% cash
HIM Model #11	60% invested (12 stocks)/40% cash