Weekly Market Commentary
January 19, 2016

Week in Review:

The Dow Jones Industrial Average fell 358 points to close the week down -2.2% at 15,988. The S&P 500 Index shed 41.7 points to end the week with loss of -2.2%, closing at 1,880.

The Nasdaq Composite was down -3.3% to end the week at 4,488. The S&P MidCap 400 Index closed the week at 1,270, down -3.0%. The Russell 2000 declined -3.7% to end the week at 1,008.

The ETF "EFA", the proxy for developed international equity markets, fell -3.0% for the week. Emerging markets, as represented by the ETF "EEM", closed out the week down -3.6%.

Domestic high yield corporate bonds fell -2.5% for the week, as measured by the Bank of America Merrill Lynch US High Yield Master II Index.

Global equities continued to sell off, dragged down by oil prices and concerns over a perceived global slowdown. The S&P 500 Index, Dow Jones Industrial Average, and NASDAQ composite are all down more than 10% below their respective 52-week highs, officially in "correction" territory. Amongst US equity sectors, it was more of the same story - Energy and Materials sold off sharply while the defensive Utilities sector posted the strongest weekly performance. Treasuries advanced, pushing the yield on the benchmark 10-year US Treasury Note down to 2.03%. Oil finally breached the key $30 mark, as both US West Texas Intermediate and global benchmark Brent Crude fell to the $29.00 to 29.50 range. The Baker Hughes US Oil Rig Count showed a decline of just one rig this week, bringing the total count of active US oil rigs down to 515.

High yield bond spreads continued to widen, pushing the Effective Yield on the Bank of America Merrill Lynch US High Yield Master II Index up to 9.16%. The Option-Adjusted Spread over Treasuries rose to 7.57%, the highest level since December of 2011. Lower rated CCC bonds outperformed higher quality BB rated debt for the week. The yield differential between the two ratings tiers is currently around 12.34%, with CCC bonds yielding 18.76% while BB's are yielding 9.16%.

In the wake of the Third Avenue Focused Credit fund liquidation, the SEC requested information from other high yield fund managers in an attempt to evaluate their ability to meet large investor redemption requests. While the Third Avenue fund was atypically illiquid, the news triggered a stampede on other, higher quality funds, prompting regulatory concerns. Investors are clearly still spooked, withdrawing $2.107 billion from high yield mutual funds and ETFs during the weekly period ended January 13th. The turmoil in the equity markets has kept high yield issuers on the sidelines, with just $900 million in new high yield debt issued thus far in 2016. With mining company Arch Coal's $3.2 billion debt default on Monday, the trailing 12-month (TTM) default rate for the beleaguered metals/mining sector increased from 11% to 15%, according to Fitch Ratings. The coal subsector has now experienced a staggering 43% TTM default rate. Metals/mining debt represents just 5% of the total high yield market. The TTM default rate for the total US high yield market stands at 3.4%.

US economic news released this week was disappointing across the board. The Producer Price Index (PPI) fell -0.2% in December, as energy costs continued to decline. Excluding the volatile food and energy sectors, the core PPI rose 0.1%. Year-over-year PPI is down -1.0%. Retail sales data in December disappointed, falling -0.1%. Lackluster apparel and general merchandise sales, down a respective -0.9% and 1.0%, contributed to the weak data. Industrial production fell in December more sharply than anticipated, down -0.4%. Vehicle production declined for the second month in a row, down -1.7% after falling -1.5% in November. Weekly jobless claims increased 7,000 to 284,000 while continuing claims, reported on a one week lag, rose 29,000 to 2.263 million. The Fed Beige Book, released Wednesday, provided further evidence that the US economy is beginning to sputter, with inflation still notably absent. The Fed district banks did point to real estate as an area of relative strength, citing both residential and commercial price gains.

In international economic news, weakness in Chinese equity markets persisted, driving the benchmark Shanghai Composite Index down below the key 3,000 point support level and into bear market territory, down -21% from the high of 3,652 on December 22nd.

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Current Model Allocations

Low Risk

Model	Allocation
HIM Model #7	100% bonds
HIM Model #2	95% municipal bonds/5% cash
HIM Model #1	100% invested (15% core high yield/10% cash /75% ATCSX)
HIM Model #6	100% cash
HIM Model #3	15% Alternative Bond Strategies/15% long treasuries/ 14% dividend equities/28% income funds/28% cash
HIM Model #4	100% cash
HIM Model #5	100% cash

Moderate Risk

Model	Allocation
HIM Model #12	100% mid-caps
HIM Model #9	60% long NASDAQ/40% short S&P 500
HIM Model #8	100% cash
HIM Model #13	100% cash
HIM Model #14	64% short treasuries/36% cash
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The index is down nearly -44% from its June peak. In European markets, stocks also fell sharply, with the Stoxx Europe 600 Index also entering bear market territory after falling -3.4% for the week and more than -20% from record levels attained last April. Germany recorded a record 12.1 billion Euro ($13.14 billion) budget surplus in 2015, twice as high as anticipated. The German government set aside half of the surplus to cover costs associated with the roughly 1.1 million migrants that arrived in Germany in 2015.

Market Perspectives **(through 1/15/2016)**

60/40 Allocation: -4.41% YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: - 8.0% YTD **Barclays Agg:** .97% YTD

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 January 15, 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 -9.6% year to date.

Weekly Update for the Week Ending January 15, 2016

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
Dow Jones Global Index	280.83	-8.36	-2.89%	-23.53	-7.73%	-27.14	-8.81%
Dow Jones Industrial Average	15988.08	-358.37	-2.19%	-1536.83	-8.77%	-1436.95	-8.25%
S&P 500 Index	1880.33	-41.70	-2.17%	-163.08	-7.98%	-163.61	-8.00%
Nasdaq Composite Index	4488.42	-155.21	-3.34%	-506.94	-10.15%	-518.99	-10.36%
S&P MidCap 400 Index	1269.83	-38.65	-2.95%	-126.62	-9.07%	-128.75	-9.21%
Russell 2000 Index	1007.73	-38.47	-3.68%	-123.82	-10.94%	-128.16	-11.28%
MSCI EAFE Index (EFA)	53.26	-1.67	-3.04%	-5.29	-9.04%	-5.46	-9.30%
MSCI Emerging Markets Index (EEM)	28.46	-1.05	-3.56%	-4.09	-12.57%	-3.73	-11.59%
BAML US High Yield Master II Index	971.66	-25.13	-2.52%	-22.10	-2.22%	-27.86	-2.79%

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

"Education's purpose is to replace an empty mind with an open one." **- Malcolm Forbes**

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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:

2016 commenced with a dramatic stock selloff that has seen the S&P 500 shed roughly 170 points over just 10 trading days. With Friday's selling action, the S&P 500 is now testing a key long-term support level around 1,867, which has held four prior times in the last 20 months, as recently as August 2015. With the S&P 500 once again hovering around this key support level, we are monitoring the markets for indications whether or not the support will hold. Caution is certainly warranted at the present time.

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Articles of Interest

The Stock Market Just Did Something It's Done Only 3 Other Times in the Past 100 years — and It's Not Good

Last week stocks got crushed and officially entered a "correction," defined as a 10% drop from recent highs.

This is the second time in the past six months that this has happened — remember, stocks fell 10% in August in just a few days — and these two corrections in such a short time don't look good, historically.

Click here to read more

Junk Bonds Signal 44% Recession Risk in 2016

The junk-bond market is indicating a 44 percent chance of a recession in the U.S. within one year, according to Martin Fridson, a money manager at Lehmann, Livian, Fridson Advisors LLC.

“I am not an economic forecaster -- this is what the market is saying," said Fridson, who started his career as a corporate-debt trader in 1976. "There are lots and lots of caveats, but if you accept all of the assumptions, it’s a pretty startling comment."

Click here to read more

A Towering Chinese Debt Mountain Looms Over Markets

Lost in all the Chinese stock and currency market gyrations, policy missteps and mixed data is this economic reality: The government is constrained by a credit bubble that has ballooned to $28 trillion in an economy growing at its slowest pace in 25 years.

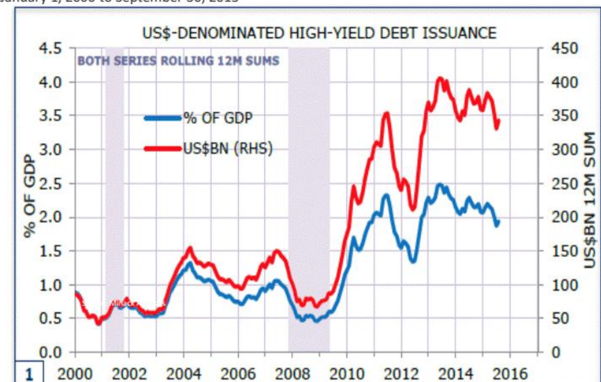
Policy zig-zags have left investors divided over how wedded President Xi Jinping and Premier Li Keqiang are to financial sector reform and shifting their $10 trillion-plus economy from one powered by investment and exports to one more focused on consumption and services.

Click here to read more

3 Charts Every Investor Must See

Last week Jeff Gundlach gave another terrific presentation on the markets. There were three charts, in particular that really stood out.

The first shows the recent trend in junk bond issuance. Since 2009, it has just surged to levels never before seen, both nominally and as a percent of GDP:



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