Weekly Market Commentary
October 5, 2015

HORTER
Investment Management, LLC

Week in Review:

The Dow Jones Industrial Average finished the week up 158 points, gaining 1.0% to close at 16,472. The S&P 500 Index added 20 points for a weekly gain of 1.0%, to end the week at 1,951.

The Nasdaq Composite was up 0.5% to close at 4,708. The S&P MidCap 400 Index closed the week at 1,386, down -0.2%. The Russell 2000 dropped -0.8% to end the week at 1,114.

The ETF "EFA", the proxy for developed international equity markets, gained 1.8% for the week. Emerging markets, as represented by the ETF "EEM", bounced back from the prior week's loss with a gain of 4.4%.

Domestic high-yield corporate bonds fell a relatively steep -1.8% for the week, as measured by the Bank of America Merrill Lynch US High Yield Master II Index.

Investors were happy to put the third quarter behind them, but Q4 did not get off to a roaring start after poor jobs data weighed on equity markets, which finished the week with modest gains. Q3 of 2015 goes in the books as the worst quarter since 2011 for the major US equity indices, with the S&P 500 down -6.56% on a total return basis. Treasury yields plunged to a five-month low, with the yield on the benchmark 10-year US Treasury note ending the week at 1.99% after falling as low as 1.91%. Oil prices were relatively unchanged for the week, with West Texas Intermediate trading at $45.49 and Brent Crude around $48 a barrel.

High yield bond issuance surged by a staggering 926.7% from the prior week, increasing from $975 million to $10.01 billion across 12 transactions in the week ended September 25th. $4.8 billion in bonds issued by Netherlands-based company Altice N.V. to fund its acquisition of Cablevision Systems Corporation accounted for nearly half of the weekly issuance. Investors closed out their high yield positions to end the quarter, leading to a $2.152 billion outflow from high yield funds. The Effective Yield on the Bank of America Merrill Lynch High Yield Master II index continued to rise, reaching 8.14% as of October 1st, its highest level since January of 2012.

The Option-Adjusted Spread (OAS) over the risk-free Treasury rate was 6.67%, up from 6.14% the week prior. The OAS of highly speculative CCC-rated bonds increased to 12.98%, and the spread of CCC bonds over less risky BB-rated bonds widened to 8.34%. Until recently, the struggles of the high yield market seemed directly linked to the low price of oil and the pressure it was putting on smaller energy producers. This relationship appears to have decoupled in recent weeks, as oil has held steady around $45 a barrel but high yield spreads have widened considerably. The perceived default risk, previously relegated to high yield energy debt, has now spread to other sectors, and to the high yield market as a whole.

In US economic news, the September jobs report came in weaker than expected, casting doubt on the likelihood of an October rate hike. The 142,000 jobs added during the month was a big miss, with analysts expecting a gain of 203,000. The data for August, a month which typically sees upward revisions, was revised downward from 173,000 to 136,000. In addition, the labor market shrank to a nearly 40 year low with a 62.4% participation rate. The unemployment rate held steady at 5.1% but the overall report was extremely disappointing and does not support the Federal Reserve members' statements that a rate hike in 2015 is appropriate. Additional bad news came via the ISM manufacturing index reading for September, which came in below expectations at 50.2. A reading above 50 signifies growth in the manufacturing sector, but the September level is the lowest since May of 2013 and the trend is clearly downward sloping heading into the fourth quarter. Weekly jobless claims rose 10,000 in the week ended September 26th to 277,000. The four-week moving average was down 1,000 to 270,750. Continuing claims, reported on a one-week lag, dropped by 23,000, to 2.219 million in the week ended September 19th.

In international markets, deflation returned to the Eurozone for the first time since the European Central Bank (ECB) embarked on its quantitative easing program back in March. The September Consumer Price Index turned negative, falling -0.1% from a year earlier, dragged down by falling energy prices, which declined -8.9%. The ECB is already buying 60 billion euros ($67 billion) in bonds each month to fight deflation.

Current Model Allocations

Low Risk	
Alpha Bonds	70% intermediate-term bonds/30% short-term bonds
Anchor Tactical Muni	90% municipal bonds/10% treasuries
Anchor Hedged Fixed Income	6% cash/94% invested
Ocean Park High Yield Bond	65% cash /35% short-term bonds
Preston Income	83% cash/17% short-term bonds
Redwood Managed Risk	100% cash
Redwood Multi-Sector	100% cash
WEDCO Power Income	100% cash

Moderate Risk	
Alpha Mid Cap	100% intermediate treasuries
Anchor Alternative Equity	60% short NASDAQ/40% short S&P 500
F-Squared Alpha Sector	100% cash
Preston OTC Hedge	100% cash
Redwood SMarT	100% cash
Tactical Wealth Government Bond	40% cash/60% long treasuries
WEDCO Power Dividend	100% cash
WEDCO Power International	100% cash

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It appears that those purchases are not enough, and the central bank has already acknowledged that it may need to expand the program to reach its target level of 2% inflation. In Asian markets, Chinese manufacturing activity fell to a six-year low in September. The final Caixin/Markit China Manufacturing Purchasing Managers' Index shrank to 47.2 in September, down from 47.3 in August. Any reading below 50 indicates contraction. The Chinese services sector, which had been one of the few economic bright spots, also fell in September to 50.5, down from 51.5 in August. The service sector slowdown is particularly concerning, as China has focused on transitioning the economy from manufacturing to service-driven. 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 -6.27% year to date.

Weekly Update for the Week Ending October 2, 2015

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
Dow Jones Global Index	298.69	2.29	0.77%	-1.39	-0.46%	-22.17	-6.91%
Dow Jones Industrial Average	16472.37	157.70	0.97%	120.99	0.74%	-1350.70	-7.58%
S&P 500 Index	1951.36	20.02	1.04%	2.50	0.13%	-107.54	-5.22%
Nasdaq Composite Index	4707.77	21.27	0.45%	-42.21	-0.89%	-28.28	-0.60%
S&P MidCap 400 Index	1386.08	-2.13	-0.15%	-10.24	-0.73%	-66.36	-4.57%
Russell 2000 Index	1114.12	-8.67	-0.77%	-31.91	-2.78%	-90.58	-7.52%
MSCI EAFE Index (EFA)	58.48	1.02	1.78%	-0.34	-0.58%	-2.36	-3.88%
MSCI Emerging Markets Index (EEM)	33.84	1.44	4.44%	0.84	2.55%	-5.45	-13.87%
BAML US High Yield Master II Index	1016.02	-18.41	-1.78%	-32.45	-3.09%	-32.16	-3.07%

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.

In 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.

Current Model Allocations

Low Risk

Alpha Bonds	70% intermediate-term bonds/30% short-term bonds
Anchor Tactical Muni	90% municipal bonds/10% treasuries
Anchor Hedged Fixed Income	6% cash/94% invested
Ocean Park High Yield Bond	65% cash /35% short-term bonds
Preston Income	83% cash/17% short-term bonds
Redwood Managed Risk	100% cash
Redwood Multi-Sector	100% cash
WEDCO Power Income	100% cash

Moderate Risk

Alpha Mid Cap	100% intermediate treasuries
Anchor Alternative Equity	60% short NASDAQ/40% short S&P 500
F-Squared Alpha Sector	100% cash
Preston OTC Hedge	100% cash
Redwood SMarT	100% cash
Tactical Wealth Government Bond	40% cash/60% long treasuries
WEDCO Power Dividend	100% cash
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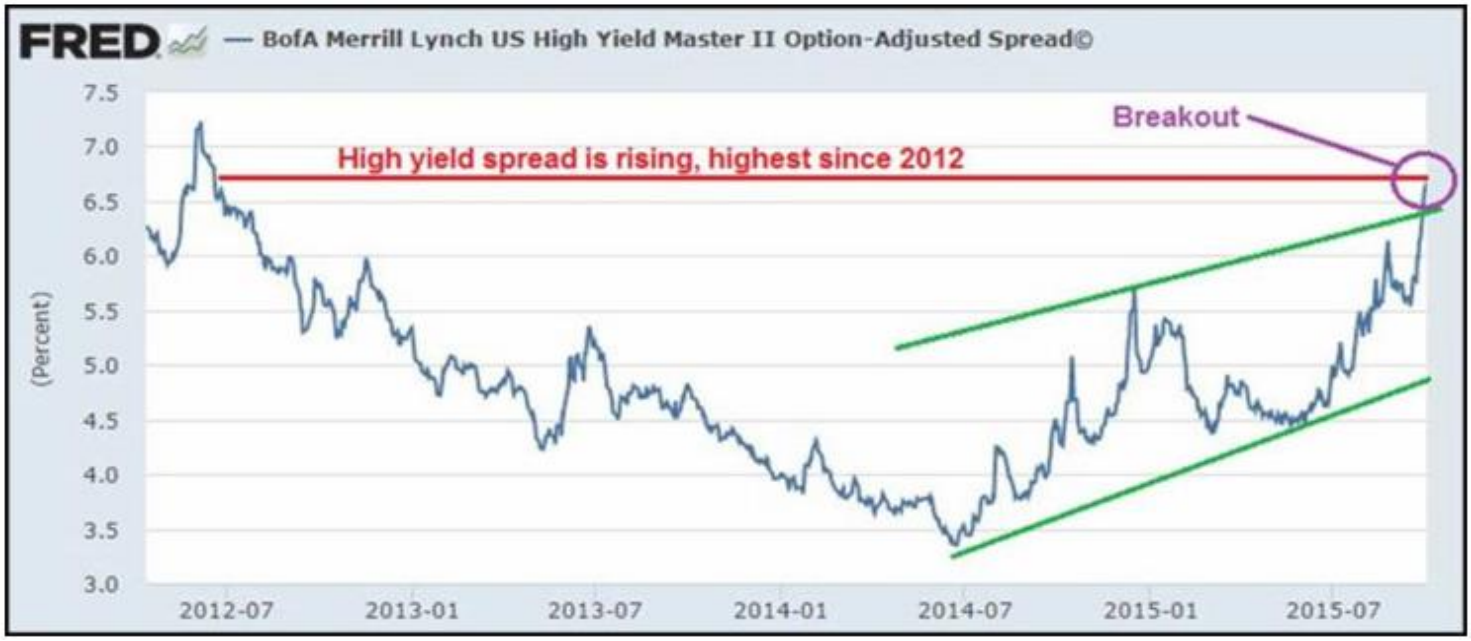
Chart of the Week:

Our Chart of the Week displays the Bank of America Merrill Lynch US High Yield Master II Option-Adjusted spread. As we can see in the chart below, the yield premium over US government securities has risen to levels not seen since 2012, as shown by the **red line**. A firm uptrend, as shown by the **green lines**, in the high yield premiums is now in place making the high yield asset class unattractive at this time. High yield spreads have even had a breakout, as denoted in **purple**, above the upper line of the uptrend channel suggesting higher spread levels are probably ahead. So things are most likely going to get worse before they get better, especially with concerns over slowing world growth being reinforced with the weak US September jobs report released on Friday. Now is a time for extreme caution.



Charts courtesy of FRED - Federal Reserve Economic Database St. Louis.

Quote of the week:

"Failure will never overtake me if my determination to succeed is strong enough." Og Mandino

Market Perspectives (through 10/2)

60/40 Allocation: -2.55% YTD

(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: -5.22% YTD **Barclays Agg:** 1.46% YTD

Current Model Allocations

Low Risk		***Moderate Risk***	
Alpha Bonds	70% intermediate-term bonds/30% short-term bonds	Alpha Mid Cap	100% intermediate treasuries
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Articles of Interest

A Market Grappling With Uncertainty

It was another volatile week of trading on Wall Street, which seems to have become the norm for the past month and a half. Such wild swings are symptomatic of a market grappling with uncertainty and reconsidering prevailing wisdom regarding the path of monetary policy and the underlying health of the global economy.

Equity markets took investors on a seesaw ride during the week, which began with a sharp move lower on Monday and culminated with a dizzying Friday turnaround on the heels of a notably disappointing September employment report. Despite the weak payrolls data, the S&P 500 and Dow Industrial indices managed to end the week 1% higher, while the NASDAQ climbed 0.5%. Click here to read more

Markets Rally on Weak U.S. Jobs Data

A weaker-than-anticipated September jobs report on Friday left investors once again scratching their heads as the timing of a Fed interest-rate hike was once again called into question.

Currently, the probability of a rate-hike announcement at the Federal Open Market Committee's October meeting implied by futures markets is under 10 percent, after Treasuries rose in the wake of weak employment gains. In reaction to the renewed uncertainty over tightening, equity index prices rose across European and emerging markets, along with copper and oil futures, as traders repositioned for a liftoff in December or later.
Click here to read more

Chinese Domino Effect Still Threatens World Mark

A broad selloff that has rattled emerging markets is showing signs of spreading. The root of investors' anxiety lies in China's economy, which in 2015 is on track to grow at its slowest annual rate in six years. Another major worry is the fallout from higher U.S. rates, which many Federal Reserve officials say are likely to arrive later this year.

The slowdown in China, the world's biggest importer of many raw materials, has pummeled commodity prices and weighed on global trade, two factors that are putting other developing nations under strain.

Even as the problems in China reverberated across the globe in the third quarter, many fund managers remained confident that markets in the U.S. and other developed countries would be able to withstand the headwinds without too much damage. Click here to read more

"Nothing Is Working" - The Markets Just Aren't That Into You

With less than 100 calendars days – and only 69 trading days – left in 2015 it's not too early to consider what kind of year we've had in capital markets. Simply put, it stinks. That assessment isn't just because of the -5.22% return for the S&P 500 year to date. Rather, it is because essentially nothing has been working. Consider:

U.S. stocks, regardless of market cap range, are down on the year. The S&P 400 Mid Caps are down 4.3%, and the 600 Small Cap Index is down the same amount. The Russell 2000 is 5.3% lower. Click here to read more

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