Weekly Market Commentary
May 23, 2016

Horter Investment Management, LLC

Week in Review:

The Dow Jones Industrial Average dropped 34 points to close the week down -0.2% at 17,501. The S&P 500 Index gained 6 points to end the week up 0.3% at 2,052.

The Nasdaq Composite was up 1.1% to end the week at 4,770. The S&P MidCap 400 Index closed the week at 1,450, for a gain of 0.7%. The Russell 2000 finished up 0.9% to end the week at 1,112.

The ETF "EFA", the proxy for developed international equity markets, finished up 0.6% for the week. Emerging markets, as represented by the ETF "EEM", closed out the week down -0.2%.

Domestic high yield corporate bonds gained 0.2% for the week, as measured by the Bank of America Merrill Lynch US High Yield Master II Index.

The S&P 500 briefly slipped into negative territory for the year, but managed to claw back to post a slight weekly gain. Treasury yields moved sharply higher on increased speculation of a June Fed rate hike, pushing the Benchmark US 10 Year yield up to 1.85%. Oil prices showed strength, trading around $48 a barrel. West Texas Intermediate closed out the week at $47.95 and Brent Crude finished at $48.78. Domestic oil inventories rose by 1.3 million barrels in the week ended May 13th.

Domestic high yield bonds posted weekly gains while spreads over Treasuries tightened. The Effective Yield on the Bank of America Merrill Lynch High Yield US Master II (BAML HY) Index declined to 7.61%. New issuance spiked to $6.9 billion in the week ended May 13th with 11 new transactions, the highest count year-to-date, coming to market during the week. After two weeks of large outflows, high yield bond mutual funds and ETFs reported large net inflows of $1.14 billion in the week ended May 18th.

In US economic news, the minutes from the April Federal Open Market Committee (FOMC) meeting revealed that Fed policymakers showed a strong inclination to move ahead with a June interest rate increase if economic conditions meet their targets. The hawkish tone of the FOMC minutes was repeated via speeches from several Fed governors. Market participants were listening, as the implied probability of a June rate hike spiked from less than 8% last week to above 30% this week. While the Fed did its best to plant the seed for a rate hike, manufacturing reports from the Northeast US showed contraction, and inflation data barely kept pace above the Fed's 2% target.

In international news, the Eurozone slipped back into deflationary territory in April even with rising energy prices. Despite aggressive stimulus measures from the European Central Bank, inflation has remained elusive and far from the 2% goal. Looming large over the struggling Eurozone economy is the June 23rd referendum on the "Brexit", a campaign for the UK to exit the European Union. In Asian markets, China's industrial production moderated in April, rising just 6% after increasing 6.8% in March. Retail sales and government spending also declined during the month. Data from Japan showed that the county's economy grew faster than expected in the first quarter, at an annual pace of 1.7%. The figure was a surprise after Japan reported a GDP contraction of -0.4% in Q4 of 2015.

In corporate news, the German chemical and pharmaceutical company Bayer made a takeover bid for Monsanto, the US-based producer of genetically modified crop seeds and pesticides. If the proposal were to be accepted and pass regulatory scrutiny, the combined company would have annual revenue in excess of $67 billion. In earnings news, large US retailers posted mixed results. Walmart reported higher-than-expected quarterly profit, prompting shares to surge nearly 10%. Fellow retailer Target also beat estimates but missed on sales, prompting the stock to plunge -10% on the news.

Did You Know . . .

US companies are meeting earnings per share (EPS) estimates, but lagging in sales. The last time the gap was so large was in 2009.

Click here to enlarge graph

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Current Model Allocations

Low Risk

HIM Model #7	100% short and intermediate-term bonds
HIM Model #2	95% municipal bonds/5% long treasuries
HIM Model #1	100% invested (15% core high yield/85% ATCSX)
HIM Model #6	100% high yield
HIM Model #3	15% alternative bond strategies/14% high yield/ 14% long treasuries/43% dividend equities/ 14% cash
HIM Model #4	100% invested
HIM Model #5	100% invested

Moderate Risk

HIM Model #12	100% mid-caps
HIM Model #19	60% short NASDAQ/40% long S&P
HIM Model #8	100% cash
HIM Model #13	100% invested
HIM Model #14	75% short treasuries/25% cash
HIM Model #10	100% invested
HIM Model #15	100% invested
HIM Model #11	90% invested (18 stocks)/10% cash

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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 May 20, 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 -.73% year to date.

Market Perspectives (through 5/20/2016)

60/40 Allocation: 1.54% YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: .41% YTD **Barclays Agg:** 3.24% YTD

Weekly Update for the Week Ending May 20, 2016

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
Dow Jones Global Index	304.25	0.35	0.12%	-11.36	-3.60%	-3.72	-1.21%
Dow Jones Industrial Average	17500.94	-34.38	-0.20%	-595.33	-3.29%	75.91	0.44%
S&P 500 Index	2052.32	5.71	0.28%	-50.08	-2.38%	8.38	0.41%
Nasdaq Composite Index	4769.56	51.88	1.10%	-178.57	-3.61%	-237.85	-4.75%
S&P MidCap 400 Index	1450.11	9.51	0.66%	-27.38	-1.85%	51.53	3.68%
Russell 2000 Index	1112.28	9.84	0.89%	-30.01	-2.63%	-23.61	-2.08%
MSCI EAFE Index (EFA)	57.31	0.34	0.60%	-2.56	-4.28%	-1.41	-2.40%
MSCI Emerging Markets Index (EEM)	32.21	-0.06	-0.19%	-2.89	-8.23%	0.02	0.06%
BAML US High Yield Master II Index	1071.09	2.53	0.24%	6.77	0.64%	71.57	7.16%
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

"Coming together is a beginning; keeping together is progress; working together is success."
- Henry Ford

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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:

This week's chart of the S&P 500 index, shown to the right, clearly shows the unprecedented volatility we have been experiencing in the equity markets since July of 2015. In that time period there has been a -12.4% decline, followed by a 13.2% rally, and immediately followed by a -13.3% decline, only to then be followed by a sharp 15% rally. This has made for a very tough investing environment.

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Articles of Interest

Dudley Joins Chorus of Fed Officials Seeing Rate Hikes Soon

The U.S. economy could be strong enough to warrant an interest rate increase in June or July, New York Federal Reserve President William Dudley said last week, cementing Wall Street's view that the Fed will tighten policy soon.

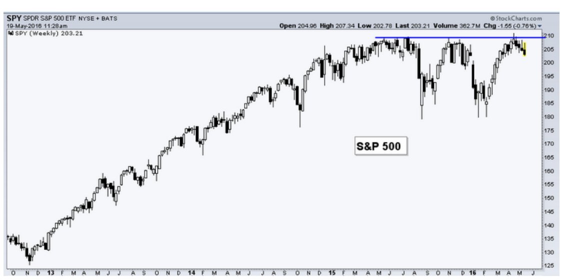
"We are on track to satisfy a lot of the conditions" for a rate increase, Dudley said. He added, though, that a key factor arguing for the Fed biding its time a little was the potential for market turmoil around Britain’s vote in late June about whether to leave the European Union.

Dudley's comments reinforced the drum beat from within the Fed in recent days that rate increases are coming soon, with a range of policymakers with normally varying views on monetary policy now stating the next policy meeting in June is firmly on the table.

Click here to read more

US Equities: Range Bound Market Handcuffs Bulls & Bears

May 21st marked the one year anniversary of the all-time high for the S&P 500 – and yet since then the stock market has been just a few percentage points away for much of the time. How depressing is that? This range bound market has tested patience and fortitude.



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Lessons from Losing Big

What I Learned Losing a Million Dollars is easily one of the most underrated investment books I’ve come across. The book was actually first published in the early 1990s but re-released a few years ago. It tells the story of Jim Paul, a former futures trader on the Chicago Mercantile Exchange who made a sizeable amount of money at a young age, but lost it all following a series of bad breaks and poor choices.

On managing money for risk, not returns:

All you can actually determine is the amount of your exposure as opposed to the probability that the market will or will not go to a certain price. Therefore, all you can do is manage your exposure and losses, not predict profits.

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Carney Warns Brexit Risks Causing Recession

Mark Carney said a vote to leave the European Union could cause a U.K. recession and that any monetary-policy response would take time to work, in his strongest warning yet of the risks in the June 23 referendum.

The Bank of England governor said on Thursday that Brexit -- which he called the “elephant in the room” -- means uncertainty over the outlook has risen to the highest since the euro-area debt crisis. The Monetary Policy Committee cut its growth forecasts, said inflation remains subdued and unanimously agreed to maintain their benchmark rate at a record-low 0.5 percent.

“A vote to leave the EU could have material effects on the exchange rate, demand and supply potential,” Carney told a press conference in London. The consequences “could possibly include a technical recession.”

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