Weekly Market Commentary
July 25, 2016

HORTER
Investment Management, LLC

The Dow Jones Industrial Average advanced 54 points to close the week up 0.29% at 18,571. The S&P 500 Index added 0.61%, or 13 points, to end the week at 2,175.

The Nasdaq Composite was up 1.4% to end the week at 5,100. The S&P MidCap 400 Index closed the week at 1,552 for a gain of 0.56%. The Russell 2000 was up 0.63%, ending the week at 1,213.

The ETF "EFA", the proxy for developed international equity markets, gained 0.14%. Emerging markets, as represented by the ETF "EEM", closed out the week up 0.78%.

Domestic high yield corporate bonds gained 0.29% for the week, as measured by the Bank of America Merrill Lynch US High Yield Master II Index.

Domestic stock indices were mostly flat for the week as investors parsed mixed earnings results. The benchmark 10 Year US Treasury Note yield was down slightly to 1.56%. Oil prices edged lower, falling to $44.30 for US West Texas Intermediate and $45.78 for international Brent Crude. The weekly Baker Hughes rig count report increased for an eighth straight week, bringing the count of US oil rigs in operation up to 462. Weekly data from the Energy Information Administration (EIA) showed oil inventories at 519.5 million barrels as of mid-July. Domestic crude oil and refined products inventories reached an all-time high, a surprise considering July is typically peak demand season.

Domestic high yield bonds posted moderate weekly gains, with yields relatively unchanged from the week prior at 6.62%. New issuance increased in the week ending July 15th, totaling $3.9 billion of new high yield debt across eight transactions. Flows to domestic high yield bond mutual funds and ETFs remained positive, with an inflow of $322 million in the weekly period ending July 20th. According to TrimTabs Investment Research, yield-starved investors have allocated $2.8 billion into high yield ETFs so far in July.

In US economic news, June housing data continued to show traction, with existing home sales rising 1.1% to an annualized rate of 5.570 million. Housing starts also trended upward, rising 4.8% to an annualized 1.189 million. The Markit flash Purchasing Managers' Index (PMI) report for July showed US manufacturing activity at a nine-month high, with factories hiring at the best rate in a year. The Fed meets next week and expectations remain near null for a July rate hike. Odds of a year-end hike have risen considerably in recent weeks, and now stand at around 48%.

In international economic news, European Central Bank (ECB) President Mario Draghi cited "encouraging resilience" in the wake of the UK Brexit referendum, and held off on announcing any new monetary easing policies. ECB policymakers cut their 2017 growth forecasts for the Eurozone, from 1.6% to 1.4%, as a result of the Brexit vote. In Asian markets, Bank of Japan (BOJ) Governor Haruhiko Kuroda explicitly ruled out the use of so-called "helicopter money" to combat deflationary pressures, however analysts do anticipate some form of additional easing to be announced when the BOJ meets next week. In other news, the political turmoil following last weekend's failed coup in Turkey prompted rating agency S&P to lower the country's sovereign debt rating from BB+ to BB.

In corporate news, earnings announcements rolled in from major US companies. Among blue chip stocks beating expectations were Microsoft, IBM, General Motors, Johnson & Johnson, and Goldman Sachs. Trading lower after reporting were Honeywell International, Philip Morris International, Yahoo, Wells Fargo, Netflix, and Southwest Airlines. In merger news, the US Justice Department sued to block two mega-mergers involving health insurers. The two deals in question are the $54 billion acquisition of Cigna by Anthem, and Aetna's $37 billion deal to buy Humana.

Did You Know . . . The price of crude oil has been directly impacted by the value of the US Dollar. Remember the commodity collapse started in 2014 as the Fed signaled to the Taper of QE, and accelerated in 2015 as the Fed signaled the end of ZIRP.

Current Model Allocations

Low Risk

Alpha Bonds	100% short and intermediate-term bonds
Anchor Tactical Muni	95% municipal bonds/5% cash
Anchor Hedged Fixed Income	100% invested (15% core high yield/85% ATCSX)
Ocean Park High Yield Bond	100% high yield
Preston Income	15% alternative bond strategies/14% utilities/ 14% long treasuries/43% dividend equities/14% MLPs
WST Bond	96% high yield/4% cash
Anchor MBS	50% MBS/30% cash/20% real estate

Moderate Risk

Alpha Mid Cap	100% intermediate–term treasuries
Anchor Alternative Equity	30% long NASDAQ/40% long S&P/30% cash
Preston OTC Hedge	100% long NASDAQ
Potomac EVO	100% long S&P 500
Tactical Wealth Government Bond	80% cash/20% long treasuries
WEDCO Power Dividend	100% invested
WEDCO Power International	100% invested
Disciplined Equity Growth Portfolio	35% invested (7 stocks)/65% 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 July 22, 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 5.61% year to date.

Market Perspectives (through 7/22/2016)

60/40 Allocation: 6.04% YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 6.41% YTD **Barclays Agg:** 5.48% YTD

Weekly Update for the Week Ending July 22, 2016

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
Dow Jones Global Index	318.51	1.15	0.36%	7.78	2.50%	10.54	3.42%
Dow Jones Industrial Average	18570.85	54.30	0.29%	790.02	4.44%	1145.82	6.58%
S&P 500 Index	2175.03	13.29	0.61%	89.58	4.30%	131.09	6.41%
Nasdaq Composite Index	5100.16	70.57	1.40%	266.84	5.52%	92.75	1.85%
S&P MidCap 400 Index	1552.34	8.71	0.56%	61.13	4.10%	153.76	10.99%
Russell 2000 Index	1212.89	7.58	0.63%	63.92	5.56%	77.00	6.78%
MSCI EAFE Index (EFA)	57.04	0.08	0.14%	-0.08	-0.14%	-1.68	-2.86%
MSCI Emerging Markets Index (EEM)	35.97	0.28	0.78%	2.03	5.98%	3.78	11.74%
BAML US High Yield Master II Index	1124.66	3.27	0.29%	31.96	2.92%	125.14	12.52%

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

"Nature holds the key to our aesthetic, intellectual, cognitive and even spiritual satisfaction." **- E.O. Wilson**

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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 eight 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 Chart of the Week below shows the 4-week average of Initial Unemployment Claims. Many people talk about their concerns regarding the current economy, but despite those worries there are many very solid data points to consider and they point to positive developments. The 4-week average of Initial Unemployment Claims is near the lowest point since December of 1973 **(green line)**, pointing to the intrinsic strength of the US economy.

Charts courtesy of Federal Reserve/US Employment & Training Administration.

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Articles of Interest

Brexit Wreaks Havoc on U.K. Economy as Recession Risk Increases

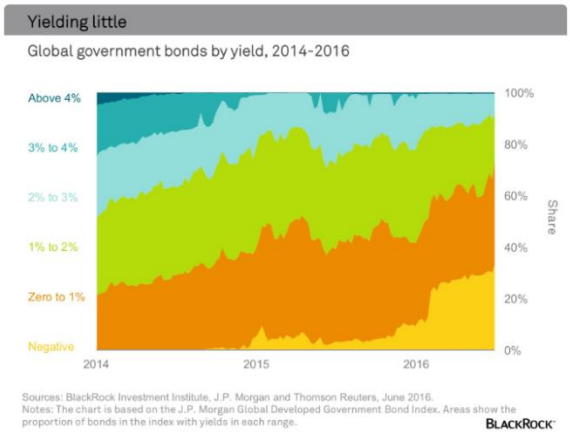
The U.K.'s decision to leave the European Union inflicted an immediate blow on the economy as business activity shrank at its fastest pace since the last recession seven years ago.

In the weeks following Brexit, there was a "dramatic deterioration," Markit Economics said in a one-time report published last week. Services and manufacturing shrank and a gauge of the private-sector economy plunged to 47.7, well below the 50 level that divides expansion from contraction.

The slump is the strongest evidence yet that politics is propelling the world's fifth largest economy into recession. It intensifies pressure on the Bank of England to deliver fresh monetary stimulus and on the government to reverse fiscal austerity.

Click here to read more

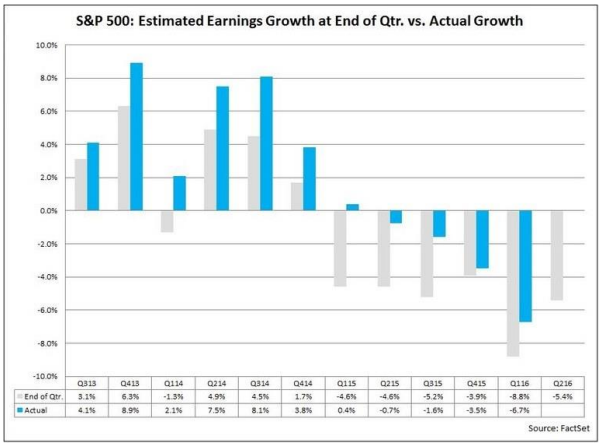
Nearly 70% of Global Government Bonds are Currently Yielding Less than 1%



Click here to enlarge graph and read more

S&P 500 Earnings Growth – Can the Decline be Halted?

The S&P 500's earnings growth has declined the last six quarters and over the past four years, on average actual earnings reported by S&P 500 companies have exceeded estimated earnings by 4.0%. During this same time frame, 68% of companies in the S&P 500 have reported actual EPS above the mean EPS estimates on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has typically increased by 2.7 percentage points on average (over the past four years) due to the number and magnitude of upside earnings surprises.



	Q313	Q413	Q114	Q214	Q314	Q414	Q115	Q215	Q315	Q415	Q116	Q216
End of Qtr.	3.1%	6.3%	-1.3%	4.9%	4.5%	1.7%	-4.6%	-4.6%	-5.2%	-3.9%	-8.8%	-5.4%
Actual	4.1%	8.9%	2.1%	7.5%	8.1%	3.8%	0.4%	-0.7%	-1.6%	-3.5%	-6.7%	

Click here to read more

Is Diversification Really a Free Lunch?

So why do we diversify? The answer, from a mathematical perspective is easy: by incorporating non-correlated assets into your portfolio, you can increase your Sharpe ratio. From a common-sense perspective, it just makes sense to not put all our eggs in one basket.

Which is great for when we are talking about nearly identical eggs. But we aren't. We're talking about asset classes with very different risk, return, and joint-behavior profiles.

Click here to read more

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