

Shilling: Don't Be Fooled By The Recent Stock Market Rebound

Don't be fooled by the recent rebound in stocks; the investment scene is beginning to resemble the 1929 market crash and the early 1930s Great Depression.

In the Roaring '20s, the Dow Jones Industrial Average jumped 500% from August 1921 to September 1929. It then plunged 48% from Sept. 3 to Nov. 13, 1929. To many, that seemed like a reasonable correction of the 1920s exuberance. The economy was fully employed and growing rapidly and most looked forward to more expansion and higher stock prices. Only days before the crash, prominent economist Irving Fisher stated that [Click here to read more.](#)



Fed Chairman: Virus Could Leave Permanent Scars On U.S.



Federal Reserve Chairman Jerome Powell voiced concern that the coronavirus crisis could leave permanent scars on the U.S. economy and said policy makers of all stripes needed to do more to limit the damage.

In a sober 48-minute teleconference with reporters after the Fed left interest rates pinned near zero, Powell suggested that the economic battle against the virus would be far from over even if a recovery begins in the third quarter from the deepest recession since the Great Depression.

[Click here to read more.](#)

QUOTE OF THE WEEK

"Opportunity is missed by most people because it is dressed in overalls and looks like work."

— Thomas Edison

Taking a comprehensive look at the overall current stock market

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 1st, 2020. 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 to get a better overall picture of the market. The combined average of all 8 indices is -3.40% year to date.

<u>Index</u>	<u>Year-to-Date (%)</u>
Morningstar Multi Alternative Index (MSTVX)	-2.41%
Barclay US Agg Bond Index (AGG)	3.72%
DoubleLine Total Return (DBLTX)	-0.37%
BlackRock 40/60 (BIMPX)	-4.53%
BlackRock 60/40 (BAGPX)	-8.16%
40/60 S&P 500/ Barclay AGG	-2.95%
60/40 S&P 500/ Barclays AGG	-6.28%
Vanguard Balanced Index Inv (VBINX)	-6.25%

Term of the Week:

Form 1040EZ

IRS Form 1040EZ: Income Tax Return for Single and Joint Filers with No Dependents was the shortened version of the Internal Revenue Service (IRS) Form 1040. This form was for taxpayers with basic tax situations and offered a fast and easy way to file income taxes. The form was discontinued as of the 2018 tax year in favor of the redesigned Form 1040.

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Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Major US equity indices had a decent weekly gain wiped out by a near -3% drop on the last trading day thanks to a redux of anti-Chinese rhetoric from the White House regarding the outbreak of COVID19. The early week rally fueled by positive earnings from large-cap tech started to stall after the Federal Reserve (Fed) meeting concluded on Wednesday on a very cautious note without any additional stimulus. The S&P 500 Index and the Dow Jones Industrial Average were both down around -0.2%, while the tech-heavy Nasdaq Composite fell slightly more, -0.3%. The Emerging Market-focused iShares MSCI EM ETF (EEM) dropped further on Friday, losing -0.7% on the week, while the Developed International iShares MSCI EAFE ETF (EFA) managed a 0.2% gain.

Fixed Income: The US Treasury market was eerily quiet considering the swings in the equity market, with the yield on the 10-year Note finishing the week 0.03% higher at 0.62%. Corporate bonds were mixed on the week, with investment grade offerings slightly lower and high yield slightly higher on a total return basis. An oversubscribed offering on \$25 billion in bonds from Boeing allowed the company to announce that it would not need federal bail-out money, though the Federal Reserve backstop allowed the barely investment grade-rate company to successfully come to market for slightly sub-investment grade rates. Refinitiv Lipper reported inflows of \$2.25 billion into investment grade funds, while high yield bond funds recorded only \$743 million during the week ended 4/29.

Commodities: Oil prices managed a weekly price gain in over a month as OPEC+ production cuts began alongside news of cuts from the US shale patch. The White House has announced that it will consider helping US producers with financing through this difficult period, while exploring the possibility of opening up more storage, thus taking the pressure off of front-month oil contracts. The US West Texas Intermediate benchmark ended the week higher by close to 16%, at nearly \$20 per barrel, while the International Brent crude benchmark finished 20% higher, at \$26.60 per barrel.

WEEKLY ECONOMIC SUMMARY

1st Quarter GDP Drop: US real GDP fell by an annualized and seasonally adjusted -4.8% in Q1 versus the prior quarter according to the advanced estimate by the US Bureau of Economic Analysis (BEA). This was compared to consensus expectations for a -3.5% drop, and the largest contraction since the Great Financial Crisis. Consumer spending predictably plummeted due to the COVID19 lockdown, though the -7.5% decline in this figure is ominous for the report for the 2nd quarter since the majority of the 1st quarter took place under normal economic conditions. Current estimates for Q2 vary quite dramatically, however the Atlanta Fed GDPNow estimate is currently -16.6%.

FOMC Meeting Announcement: The Federal Reserve Open Market Committee announced no change to their benchmark rate, leaving it at a range of 0-0.25%. This was widely expected, as Chair Jerome Powell et al. have previously expressed aversion to negative rates here in the US. Chair Powell used the opportunity to address the public to temper expectations for a swift recovery, saying that a "W-shaped" recovery of economic fits and starts may be too optimistic. He stated that the current accommodative programs will continue, expressing a desire to see how the economy responds before expanding upon these programs, but standing ready if necessary.

Pandemic Impact on FAANG Earnings: Following Netflix's (NFLX) big surprise in the prior week, the balance of the so-called FAANG momentum stocks reported 1st quarter earnings and business effects from COVID19. Shares of Facebook, Inc. (FB) were higher after reporting that ad revenue had stabilized in April after stumbling in March, while still reporting an 18% increase in revenue over the same quarter in 2019. Google parent, Alphabet (GOOG/GOOGL), had similar response to their reporting of a monthly ad revenue drop but continued double-digit growth for the quarter. Apple, Inc. (AAPL) was able to maintain growth thanks to record sales of services and wearables for the quarter, while high-flying Amazon (AMZN) stock fell dipped post-earnings despite record Q1 revenue due to soaring costs associated with protecting employees from the COVID19 pandemic. <https://www.hanlon.com/weekly-update/>

Current Model Allocations Separately Managed Accounts

HIM #3 – 33.33% Fund & 50%MM & 16.67% Fund

HIM #8 – 100% Fund

HIM #25 – 100% GVPIX

HIM #22– 33% RYNVX & 67% Money Market.

HIM #12– 100% IJH

Summary

In utilizing an approach that seeks to limit volatility, it is important to keep perspective of the activity in multiple asset classes. 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. With the market turmoil of the past week, on March 11th we entered a bear market for the first time since the financial crisis of 2008. A bear market is defined as a decline of 20% or more from recent highs. This bear market officially ends one of the longest bull markets in U.S. history, at 11 years. Keep in mind

we are in a much different environment than 2008. In 2008 we had a housing bubble fueled by incredibly risky lending practices. In other words, we had major systemic problems in our economy and markets. Today we are in a much different, but still challenging environment as the markets attempt to quantify the impact of the coronavirus on the global economy. We have discussed the possibility of a Black Swan event impacting markets, and the coronavirus appears to be that event.

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 the domestic markets and how our managers are actively managing their portfolios on a daily basis in response to the coronavirus concerns. We remind you there are opportunities to consider with all of our managers and our tactical models. Hopefully this recent market commentary is helpful and thanks for your continued trust and loyalty.



CHART OF THE WEEK

The Chart of the Week is a year-to-date performance chart of the Financial Select Sector SPDR ETF (XLF, green) representing the performance of large-cap US financial sector equities and the broader large-cap S&P 500 Index (navy). With bank profitability already squeezed due to low interest rates, the XLF rally alongside the broader index hit resistance at the most recent peak (black line) as many large banks announce stricter credit standards that will hamper future loan growth. <https://www.hanlon.com/weekly-update/>

National Headquarters | 11726 Seven Gables Road | Symmes Township | Cincinnati | OH | 45249

P: (513) 984-9933 | F: (513) 984-5219