HORTER INVESTMENT MANAGEMENT
Market Commentary
December 29, 2014

Staying with historical norms, there was very little market activity and light trading in a holiday-shortened week last week. Between holidays it still remains our desire at Horter Investment Management to keep our clients up-to-date on recent market activity, as well as recent activity relative to our private wealth managers. Our money managers continue to remain cautious, keeping in mind the majority of our clients' desire for a low risk, low volatility, and consistent approach. Even though the Dow Jones Industrial Average (DOW) recently broke through 18,000, we continue to educate our clients about these market moves and identify misconceptions, missing critical facts, or myths around long-term investing.

Understanding "market highs" and why everyone is talking about them continues to be important. The three major indices most often discussed in the media are the Standard and Poor's 500 (S&P 500), the Dow Jones Industrial Average (Dow) and the NASDAQ. These indices, while popular, are not a comprehensive representation of the overall stock market. Investing solely in any investment looking to mirror these indices, we consider high risk.

Taking a comprehensive look at the overall current stock market, you can see the following chart representing 8 major stock indices and their returns through the week ending December 26, 2014. 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 first 8 indices to get a better overall picture of the market. The combined average of all 8 stock indices is 5.11% year to date.**

Weekly Update for the Week Ending December 26, 2014

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
Dow Jones Global Index	323.75	2.40	0.75%	-5.04	-1.53%	9.56	3.04%
Dow Jones Industrial Average	18053.71	248.91	1.40%	225.96	1.27%	1477.05	8.91%
S&P 500 Index	2088.77	18.12	0.88%	15.94	0.77%	240.41	13.01%
Nasdaq Composite Index	4806.86	41.48	0.87%	19.54	0.41%	630.27	15.09%
S&P MidCap 400 Index	1467.90	18.17	1.25%	13.68	0.94%	125.37	9.34%
Russell 2000 Index	1215.21	19.27	1.61%	24.59	2.07%	51.57	4.43%
MSCI EAFE Index (EFA w/o divs)	62.24	0.54	0.88%	-2.27	-3.52%	-4.86	-7.24%
MSCI Emerging Markets Index (EEM w/o divs)	39.42	0.58	1.49%	-2.93	-6.92%	-2.38	-5.69%
BofA Merrill Lynch US High Yield Master II Index	1047.13	5.00	0.48%	-18.57	-1.74%	24.54	2.40%
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.

Week in Review:

The Dow Jones Industrial Average gained 249 points for the week, finishing up 1.4% at 18,054. The S&P 500 Index was up 18 points for the week, or 0.9%, to close out the week at 2,089.

The Nasdaq Composite gained 0.9%, ending the week at 4,807. The S&P MidCap 400 Index closed the week at 1,468, up 1.3%. The Russell 2000 rose by 1.6%, to close out the week at 1,215.

The MSCI ETF "EFA", the proxy for developed international equity markets, was up 0.9%. Emerging markets, as represented by the MSCI ETF "EEM", gained 1.5% for the week.

Domestic high yield corporate bonds were up 0.5% for the week, as measured by the Merrill Lynch US High Yield Master II Index.

Stocks were up on the holiday-shortened week as the Dow Jones Industrial Average advanced steadily to cross the 18,000 milestone for the first time ever. Oil prices were less volatile and were relatively unchanged week over week, with Brent Crude trading around $60 a barrel and West Texas Intermediate in the $55-$56 range. While oil prices seem to have at least momentarily stabilized, natural gas prices declined sharply, briefly testing levels below $3 per 1,000 cubic ft. for the first time since 2012. The yield on the benchmark 10-year U.S. Treasury Note rose to 2.26%.

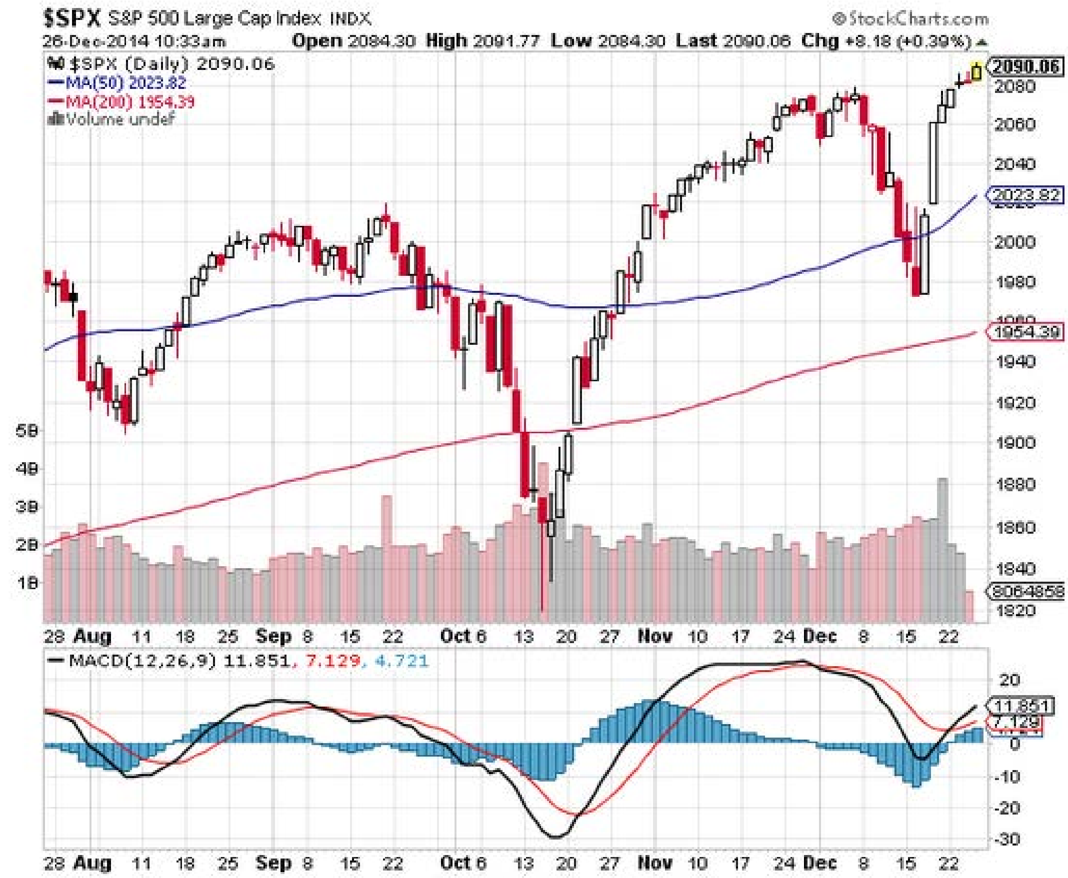
In geopolitical news, there was a setback in the conflict between Ukraine and pro-Russian rebels as peace talks scheduled for Friday were called off. Earlier in the week, Ukraine's parliament voted to work towards NATO membership, a move which was heavily criticized by Russia.

In U.S. economic news, third-quarter GDP was revised sharply higher to +5%, the strongest reading since 2003. Durable goods orders slipped -0.7% in November, significantly underperforming consensus estimates of +3.1%. Home sales for November were poor, with existing home sales down -6.1% and new home sales down -1.6% month over month. Initial jobless claims fell 9,000 in the week ended December 20th to 280,000, with the 4-week average down by 8,500 to 290,250. Continuing claims, which are reported with a 1-week lag, rose by 25,000 in the week ended December 13th to 2.4 million.

In international economic news, the ruble posted its biggest weekly rally in 16 years, recovering from the December 16th record low of 80.10 rubles per USD and trading in the 52-55 range for the week. Russia's central bank has exhausted over $110 billion in foreign currency reserves this year in an effort to prop up its currency. Russia's total international reserves, which include foreign currencies, gold, and other assets, have fallen to $399 billion as of December 19th. On Tuesday, rating agency Standard & Poors placed the country's debt on review for potential downgrade to junk status.

S&P Chart:

The S&P 500 is forging to new highs thanks to the positive reception by the markets of the Fed's announcement at the recent meeting. Our Moderate Risk Managers are doing well, especially WEDCO Power Dividend. The S&P 500 looks to be breaking out to new highs. The chart exhibits a nice pattern of two consecutive higher lows, the first of which was in mid-October and the second of which was in mid-December. The S&P 500 looks poised to move higher. Horter is constantly monitoring all areas of the equity and bond markets for the best opportunities for our clients.



Charts courtesy of Stockcharts.com. Commentary and opinions are those of Hanlon Investment Management.

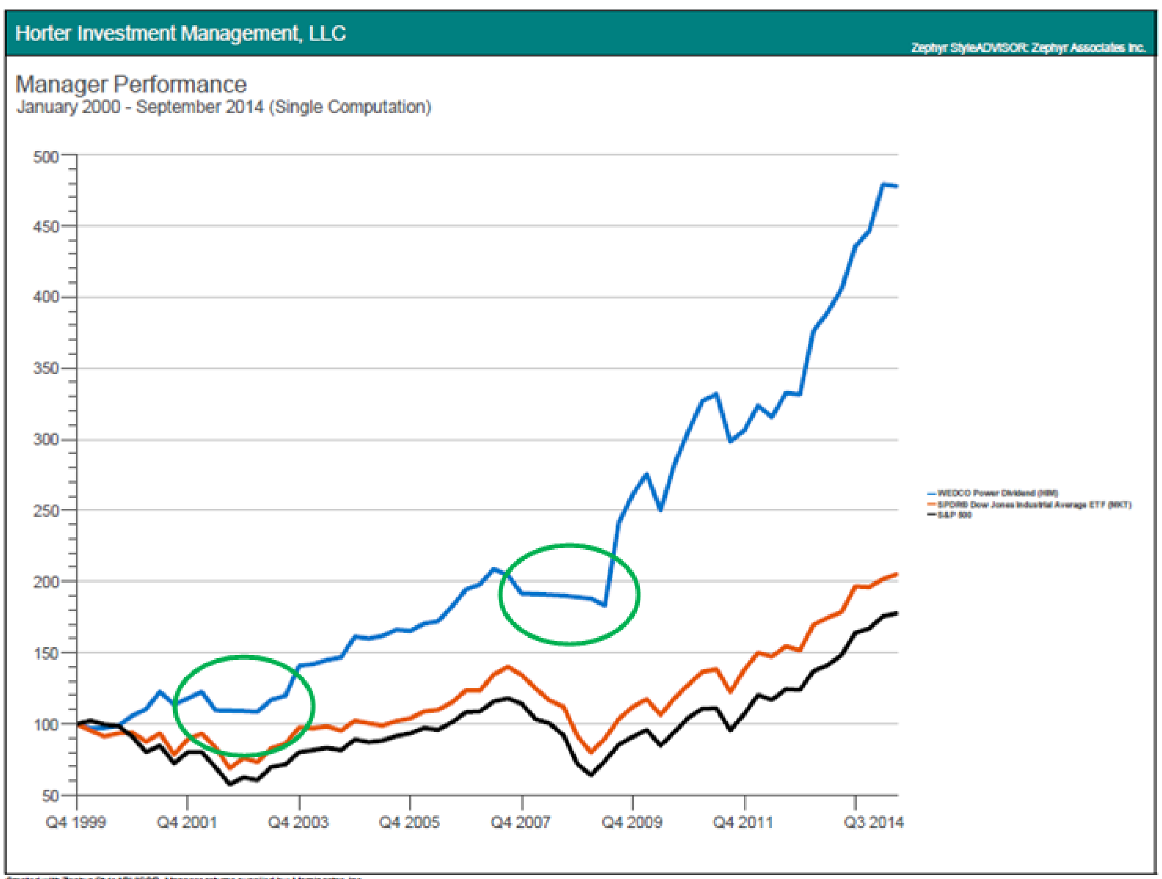
For additional information about Horter Investment Management, including fees and services, send for our disclosure statement as set forth on Form ADV from Horter Investment Management using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

DOW 18,000 – What Does It Really Mean???

This week the DOW broke through the psychological 18,000 mark . . . . so, what exactly does that mean for clients investing with tactical private money managers? In the low-risk area, it doesn't exactly mean anything, because our managers have remained cautious. In addition, the DOW is a very specific measure of how 30 individual stocks are doing and are not considered low risk. In our low-risk space, our managers specialize in the fixed income asset class and have no exposure to equities (stocks).

However, for our clients that are comfortable with more risk and volatility, some of our moderate-risk portfolios are still invested – the W.E. Donoghue (WEDCO) Power Dividend Index portfolio, as an example. Below is a snapshot of how the WEDCO Power Dividend Index portfolio has performed in comparison to the DOW and S&P 500 since the beginning of 2000. From a pure return standpoint, the WEDCO Power Dividend Index Portfolio has returned 11.19% per year (Jan 2000 – Sept 2014). While the DOW and S&P 500 have returned 5% and 3.98% per year, respectively, during that same period.(1)

You'll also notice that there is some volatility in the WEDCO Power Dividend Index Portfolio (blue line). WEDCO did not move to cash during the beginning of the pullback in the markets in the summer of 2011, but as things deteriorated even more in August a move to cash was made. Even in the most recent move in October, the WEDCO portfolio stayed fully invested. However, when the markets were under severe periods of stress back in 2000, 2001, 2002 and 2008, WEDCO did move to a cash position (indicated by the green circles).(1) These tactical decisions are exactly what this portfolio is designed to do – avoid severe drawdowns to your portfolio and investment principal. From a drawdown stand point, both the DOW and S&P 500 have experienced drawdowns of more than 40% during this period, while the WEDCO Power Dividend Index portfolio has been less than 14%. **As we like to say, defensive in bad times and opportunistic in good times.**



Created with Zephyr StyleADVISOR. Manager returns supplied by: Morningstar, Inc.

WHEN TO MOVE TO CASH

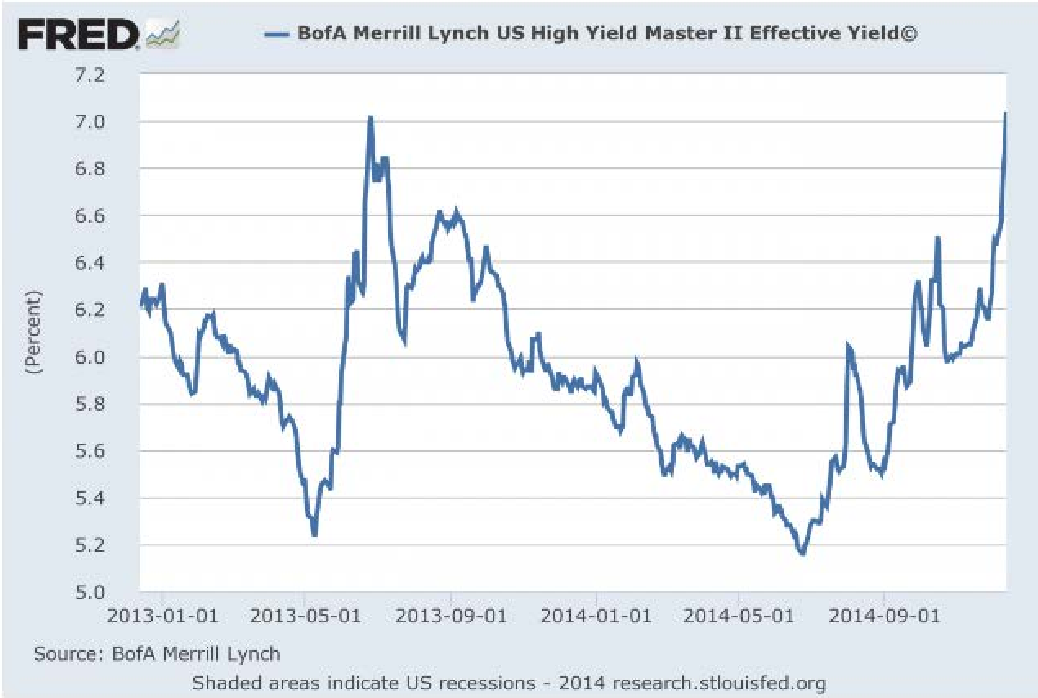
As a client, understanding when our money managers move to a cash position (even to a “risk on” or invested position in the market) can be very important in your overall investment experience. While the majority of our managers and portfolios are tactical in an effort to limit drawdowns, each of them employs their own unique system on when to make a move to cash or into the market. Our low-risk managers will be quicker to move to a “risk off” position into cash. Our moderate-risk managers, who typically have equities in their portfolios, may be a little slower to move to a “risk off” position in an effort to avoid being whipsawed by quick market moves that can come with investing in equities. Some of our low-risk managers even have a mandate of what their drawdown target is. The Redwood Managed Risk portfolio is a prime example of this. Redwood aims to limit the portfolio’s drawdown to less than 4-5%, even during a bad month or quarter in “risk” markets (equities). This is the portfolio’s number 1 objective! Second to that, the portfolio seeks to generate an annual total return of 6% above inflation (measured by 91-day U.S. Treasury Bills), net of management fees, over a market cycle (4-6 years). Preservation of principal first, growth second.

Every client has their own unique risk profile . . . and someone’s risk profile can change over time! This is why it is extremely important to understand your own risk profile, how it relates to the portfolios that you decide to use and ultimately how it can impact achieving your own financial goals.

Chart of the Week

A recent article in the Wall Street Journal, *The Ex-Goldman Trader Who Correctly Shorted Subprime Mortgages During The Financial Crisis Has Made A New Bet*, has highlighted areas of the high yield market that bring back memories of conditions from a previous market bubble to take note of.

The chart below shows the effective yield of the Bank of America Merrill Lynch US High Yield Master II index, which has risen back to recent highs. To read more about what this rise in yields means, and to learn more about what Josh Birnbaum thinks about high yield bonds. Click to read more



In conclusion, while one of the most widely covered indices has broken through a psychological measure and the markets have been fairly uneventful in a holiday-shortened week, we continue to monitor all of the markets and how our managers are actively managing their portfolios. We remind you that there are opportunities to consider with all of our managers, as long as you're comfortable with the volatility that is characteristic of the portfolio.

We certainly hope this recent market commentary is helpful. Again, we thank you for your continued trust and loyalty. Should you have any further concerns or comments, please call or e-mail your advisor.

We wish you a safe and prosperous New Year!

Portfolio	Current Allocation
LOW RISK PORTFOLIOS	
Redwood Managed Risk	Cash
Ocean Park High Yield Bond	10% invested/90% Cash
Alpha Bonds Strategy	Currently in 3rd Power Period
WEDCO Power Income	50% invested/50% Cash
MODERATE RISK PORTFOLIOS	
Redwood SMarT	Cash
WEDCO Power Dividend	Fully Invested
F-Squared Alpha Sector	**5 Sectors Invested**
Alpha Mid-Cap	Currently in 3rd Power Period
WEDCO Power Dividend International	Cash

ARTICLES OF INTEREST

Oil rises further above $60 as Libyan output slumps

LONDON (Reuters) - Oil rose further above $60 (39 pounds) a barrel on Friday as unrest in Libya cut supplies, offsetting a growing supply glut in top consumer the United States and weak imports by Japan.

Fighting in Libya has cut output there to 352,000 barrels a day, a state oil company spokesman said on Thursday, or about half November's average. This countered the U.S. Department of Energy's (DOE) report showing a big stockbuild.

"Libya is a supportive factor," said Olivier Jakob, analyst at Petromatrix in Zug, Switzerland. "The fighting in Libya is starting to be more and more about a battle for the oil resources and this will not end well." Click to read more

5 Money Moves Everyone Should Make in 2015

The end of the year is finally on its way, and you know what that means: It's time to reflect on how your financial goals and dreams panned out in 2014. Did everything go as planned?

If you're like most people, many of your financial aspirations simply fell to the wayside as the year progressed. Still, if you hope to make a positive Click to read more

Treasury 30-Year Bonds Lead Rally on Low Inflation Prospects

Treasury 30-year bonds rose for a second day as measures show inflation remains below the Federal Reserve's target even as faster U.S. economic growth bolsters the case for the central bank to raise interest rates next year. Click to read more

[1] Past performance is no guarantee of future results. Actual results may vary. Investors may lose money.