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November 17, 2017

2018 Stock Market Outlook

Our 2018 S&P 500 Index outlook is up. If the P/E remains constant as it has for the past two years, the S&P 500 should be up in-line with earnings or about 11%.

The following ten factors support our 2018 bullish investment thesis:

1. Global Economic Expansion – No U.S. Recession In Sight

The global stock market (MSCI AC World Index) has posted a gain for 12 consecutive months (a record) and is on track for every single month in a year for the first time in the 30-year history of the index. Every one of the world's 45 largest economies tracked by the Organization for Economic Cooperation and Development (OECD) is expanding. Economists are forecasting acceleration in world GDP in 2018 from 2017 levels.

MSCI WORLD INDEX MONTHLY GAINS/LOSSES

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2017	2.7%	2.6%	1.0%	1.4%	1.9%	0.3%	2.7%	0.2%	1.8%	2.0%		
2016	-6.1%	-0.9%	7.2%	1.3%	-0.2%	-0.8%	4.2%	0.1%	0.4%	-1.8%	0.6%	2.0%
2015	-1.6%	5.4%	-1.8%	2.7%	-0.4%	-2.5%	0.8%	-7.0%	-3.8%	7.8%	-1.0%	-1.9%
2014	-4.1%	4.6%	0.2%	0.7%	1.8%	1.7%	-1.3%	2.0%	-3.4%	0.6%	1.5%	-2.0%
2013	4.5%	-0.2%	1.6%	2.6%	-0.6%	-3.1%	4.7%	-2.3%	5.0%	3.9%	1.2%	1.6%
2012	5.7%	4.8%	0.4%	-1.4%	-9.3%	4.7%	1.3%	1.9%	2.9%	-0.8%	1.1%	2.1%
2011	1.5%	2.8%	-0.3%	3.9%	-2.5%	-1.7%	-1.7%	-7.5%	-9.7%	10.6%	-3.2%	-0.3%
2010	-4.4%	1.1%	6.2%	0.0%	-9.9%	-3.1%	8.0%	-3.7%	9.4%	3.5%	-2.4%	7.2%
2009	-8.6%	-10.0%	7.9%	11.5%	9.5%	-0.7%	8.7%	3.4%	4.4%	-1.6%	3.9%	2.0%
2008	-8.3%	0.1%	-1.7%	5.3%	1.2%	-8.3%	-2.7%	-2.4%	-12.7%	-19.9%	-6.8%	3.5%
2007	0.9%	-0.7%	1.8%	4.2%	2.7%	-0.4%	-1.6%	-0.5%	5.2%	3.8%	-4.6%	-1.2%
2006	4.9%	-0.3%	1.9%	3.2%	-4.2%	-0.2%	0.6%	2.4%	1.0%	3.7%	2.6%	2.1%
2005	-2.2%	3.3%	-2.4%	-2.4%	1.6%	0.9%	3.6%	0.6%	2.9%	-2.8%	3.5%	2.4%
2004	1.6%	1.7%	-0.8%	-2.5%	0.5%	1.9%	-3.3%	0.4%	1.9%	2.4%	5.3%	3.8%
2003	-3.0%	-2.0%	-0.7%	8.6%	5.5%	1.7%	2.1%	2.2%	0.5%	5.9%	1.4%	6.2%
2002	-2.8%	-0.9%	4.5%	-3.5%	-0.1%	-6.3%	-8.5%	0.1%	-11.1%	7.2%	5.3%	-4.9%
2001	2.5%	-8.5%	-6.9%	7.1%	-1.4%	-3.2%	-1.7%	-4.8%	-9.3%	2.1%	6.0%	0.9%
2000	-5.5%	0.2%	6.5%	-4.6%	-2.7%	3.3%	-3.0%	3.0%	-5.6%	-2.1%	-6.3%	1.6%
1999	1.9%	-2.6%	4.4%	4.2%	-3.7%	4.9%	-0.5%	-0.2%	-1.2%	4.9%	3.0%	8.2%
1998	2.1%	6.7%	4.1%	0.8%	-2.0%	1.7%	-0.1%	-14.2%	1.8%	9.0%	5.9%	4.5%
1997	1.5%	1.2%	-2.2%	3.0%	5.8%	5.0%	4.4%	-7.1%	5.2%	-6.1%	1.4%	1.2%
1996	2.1%	0.2%	1.4%	2.3%	-0.1%	0.4%	-3.9%	1.1%	3.5%	0.2%	5.2%	-1.6%
1995	-2.2%	0.9%	4.4%	3.4%	0.9%	-0.2%	4.7%	-2.4%	2.6%	-1.8%	3.0%	2.8%
1994	6.5%	-1.6%	-4.7%	2.5%	0.4%	-0.7%	2.0%	3.4%	-2.5%	2.4%	-4.5%	0.2%
1993	0.1%	2.2%	5.5%	4.3%	2.5%	-1.2%	1.9%	4.6%	-1.8%	2.8%	-5.4%	5.2%
1992	-1.7%	-1.7%	-4.7%	1.1%	3.6%	-3.8%	0.1%	2.0%	-1.1%	-2.7%	1.5%	0.7%
1991	3.5%	9.2%	-3.5%	1.1%	2.2%	-6.3%	4.6%	-0.4%	2.3%	1.5%	-4.5%	7.2%
1990	-4.8%	-4.4%	-6.4%	-1.5%	10.2%	-0.9%	0.8%	-9.6%	-10.7%	8.9%	-1.9%	1.9%
1989	3.4%	-0.8%	-0.7%	2.3%	-2.5%	-1.6%	11.1%	-2.5%	2.8%	-3.4%	3.8%	3.1%
1988	2.3%	5.6%	2.9%	1.1%	-2.1%	-0.3%	1.7%	-5.7%	4.1%	6.4%	3.2%	0.7%

Monthly performance of MSCI AC World Index.
Source: Charles Schwab, Factset data as of 11/1/2017.

In the U.S., the Leading Economic Index (LEI) and treasury yield curve are showing no signs of an impending recession.

2. China Stable and Growing

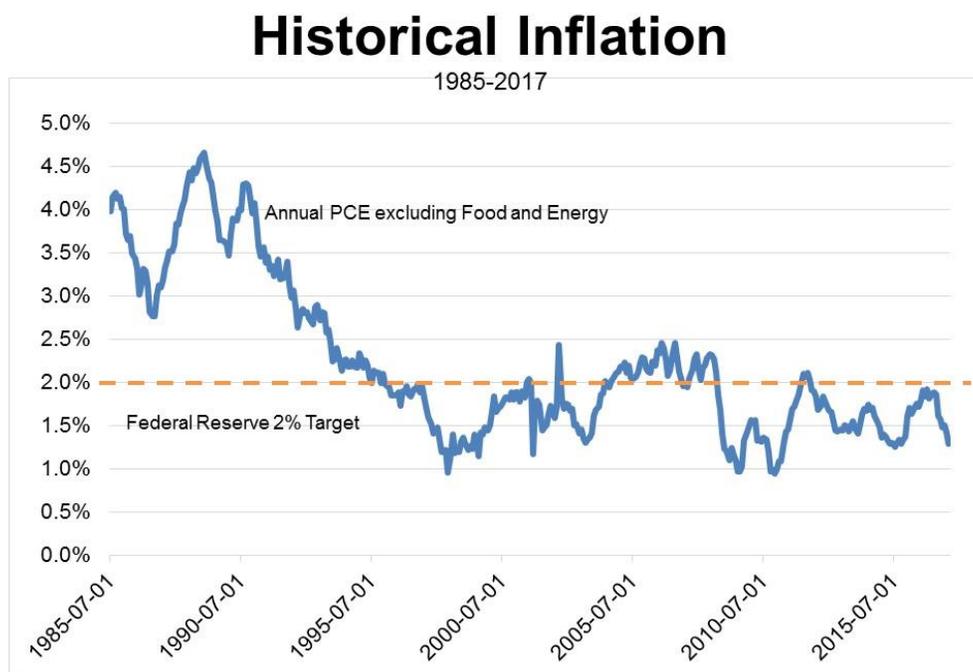
In late 2015 and early 2016, concerns about decelerating growth in China caused investors to fear a global recession. China did not economically fall apart. Chinese GDP rose 6.8% in the third quarter year-over-year (y/y), September retail sales were up 10.2% y/y, industrial production advanced by 6.6% and fixed-asset investment climbed 7.5% in the first nine months of 2017. The feared slowdown morphed into a stable growth environment.

3. Global Easy Money – Public and Private Credit Markets Pro-Growth

Europe and Japan continue with quantitative easing. In the U.S., corporate debt issuance is at new highs. Money raised in the corporate debt market is bullish for equities as these funds are used for stock buybacks, dividends, capital expenditures, mergers and acquisitions and retirement of more expensive debt. Corporate balance sheets are in excellent shape.

4. Low Inflation

Inflation in the U.S. has been averaging below 2% for the past twenty years. We believe the record will extend to at least 21 years. Globalization and technology are secular drivers of low inflation.



Source: St. Louis Fed

5. Earnings at All-Time Highs and Rising

The earnings per share for the MSCI AC World Index (ACWI) is above \$30. In the U.S., the S&P 500 consensus earnings estimate is expected to advance by about 11% year-over-year on revenue growth of about 5% off of record levels reached in 2017.

6. Market Shift to Technology – Strong Secular Growth Drivers

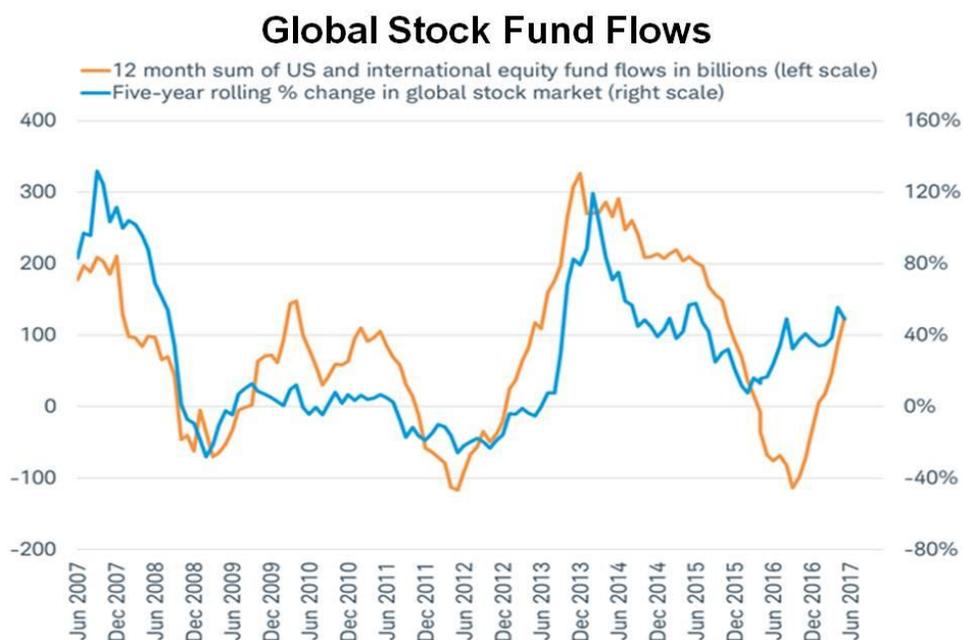
Of the top ten largest corporations in the world in 2009, only one was a technology company – Microsoft. Today, seven of the ten largest companies worldwide are technology companies including Apple, Google/Alphabet, Microsoft, Facebook, Amazon, Alibaba and Tencent. The shift to a technology dominated economy provides a boost to earnings growth rates.

Over a fifth of the S&P 500 is represented by the technology sector. Consensus revenue growth for the technology sector in 2018 is 9.4% which should drive 35% earnings growth. In the past month, the revenue growth forecast was revised up from 8.7% to the current 9.4%.

7. Weaker U.S. Dollar

Another boost to U.S. earnings growth is a weaker dollar. The dollar measured against the Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona and Swiss Franc is down about 9% on average year-to-date. This makes U.S. products more price competitive abroad.

8. Equity Fund Flows Are Positive But Well Below Historic Highs



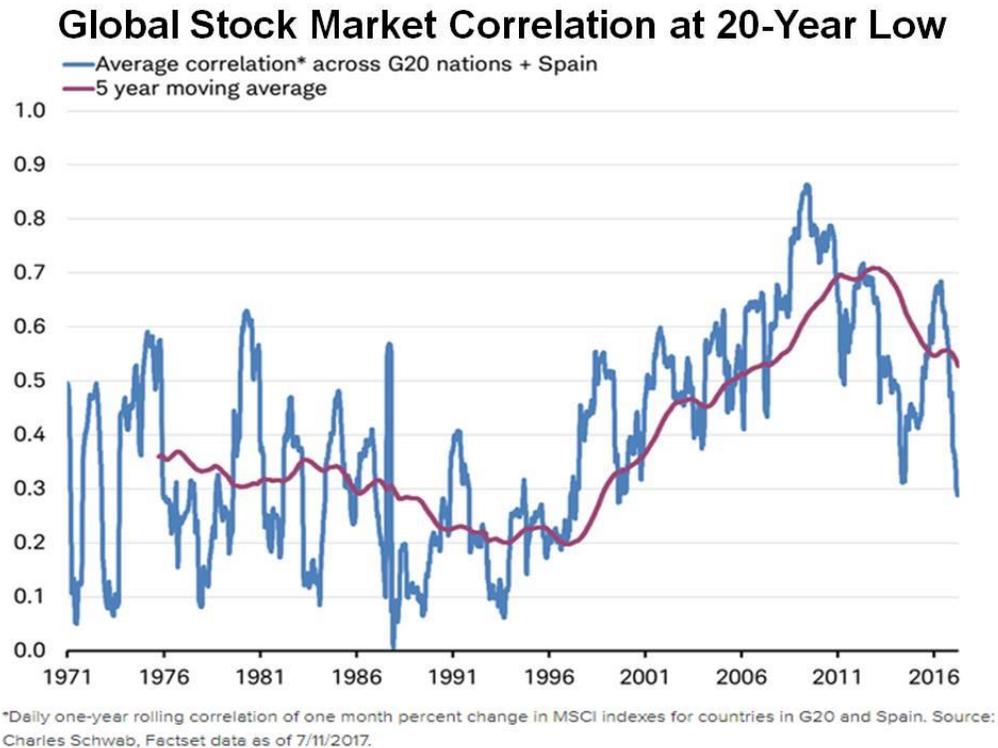
Global stock market represented by MSCI AC World Index.

Source: Charles Schwab, Bloomberg and Investment Company Institute data as of 8/5/2017.

9. Correlations Are Low

The stock market suffers when there are macro fears driving buying and selling. Correlations move towards 1 during times of crisis. Alternatively, correlation falls during bullish times as investors buy/sell stocks on their individual merits rather than a macro sentiment.

In the chart below, correlations nearly reached 0.9 in 2008 during the financial crisis. During the 1990s bull market, correlations were below 0.4. Today, they are about 0.3.



10. The Trend Is Your Friend

The S&P 500 total return since the March 2009 low through October 2017 is 357%. Direction is more important than distance. Often distance surprises both on the upside and downside.

In time, the direction will change. We are mindful that valuations are full just as many metrics may be reaching their maximum positive values. Corporate margins are at highs. Unemployment at 4.1% may not have much room to move lower, but 3.5% unemployment may be one of the surprises in 2018. Government antitrust intervention may increase as the largest technology companies exhibit monopolistic, anti-competitive behaviors. Technology innovation is disruptive and many traditional businesses are losers as fewer mega-cap tech firms consolidate the wins. The treasury yield curve spread between the 10- and 2-year rates is roughly 65 basis points and continues to narrow (see Treasury Yield Curve chart below in Dashboard section).

International central bank quantitative easing will end as the global economy expands. As we move into 2018, new issues will arise as they do every year.

We end 2017 with the bulls in charge. Fundamentals and momentum may carry us through 2018 and beyond. Although we have a bullish outlook for the New Year, it is perhaps more important than ever at this advanced point in the cycle to have a disciplined plan for avoiding the next major bearish period.

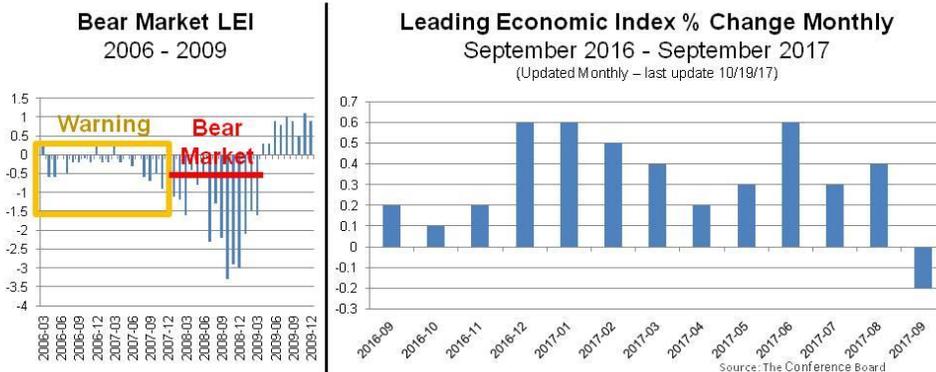
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"Who tipped off the turkey?"

Delta Stock Market Dashboard





MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

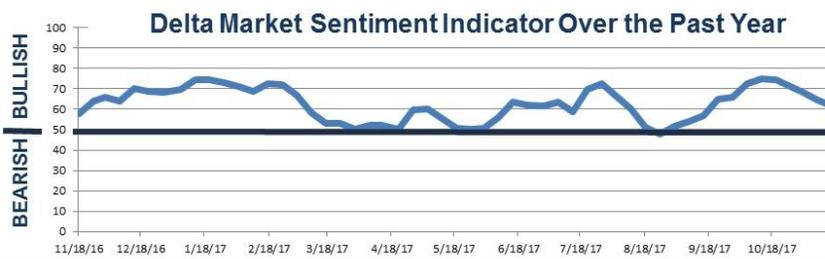
61.7

Our technical indicator decreased this week from 64.6 to 61.7

INDICATOR STATISTICS

Consecutive Bullish Weeks:	53
Cycle Inception Date:	11/15/2016
Range:	47.9 – 74.9
Mean:	62.5
Bullish Weeks YTD:	46
Bearish Weeks YTD:	0
*S&P 500	18.6%
*DJIA	24.4%
*NASDAQ	27.8%

* Percentage change during current cycle



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