

Delta Investment Management is a registered investment advisory firm headquartered in San Francisco. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new partner. Delta manages portfolios at TD Ameritrade and Schwab. Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

May 11, 2018

No Gutter Balls

It is hard to throw a gutter ball when the bumpers are up. Having the bumpers up will help us avoid the frustration of our investments rolling into the gutter but does not necessarily grant us a PBA (Pro Bowlers Association) type score.

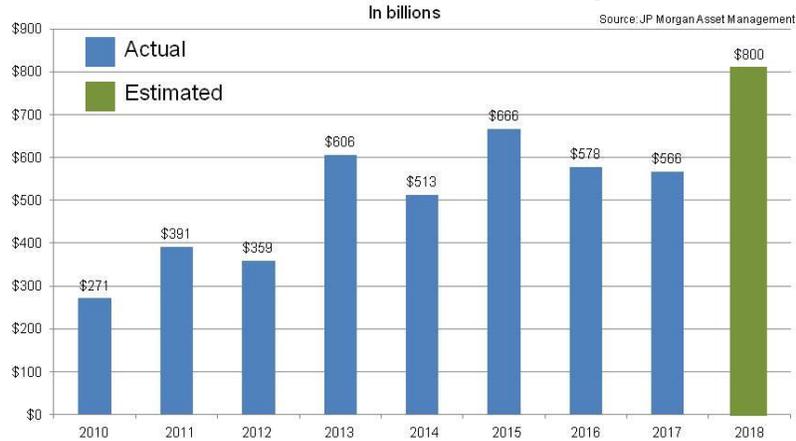
Nestle announced last week that it has agreed to pay \$7.2 billion for the right to sell Starbucks' packaged coffees and teas. Starbucks says it will use the \$7.2 billion to accelerate share buybacks. Starbucks expects to return to shareholders \$20 billion through repurchases and dividends through fiscal 2020. This return of value represents roughly 25% of the total market capitalization of the company today.

Apple (AAPL) is completing a previously announced (Apr. 2012 – Sep. 2018) \$210 billion share repurchase program in the third quarter. When the company reported earnings last week, they announced a new \$100 billion buyback program. The new program represents roughly 10% of the total market capitalization of the stock. The company is also increasing its dividend by 16%. The company's longer term goal is to return to shareholders all of the \$270 billion cash balance.

Facebook (FB) had a \$6 billion stock buyback program in place. With the stock down on customer privacy concerns, the company announced on April 25 it would add an additional \$9 billion in buybacks. Since the announcement, the stock is up 11%.

Starbucks, Apple and Facebook are not outliers. Collectively, the companies of the S&P 500 are expected to repurchase a record \$800 billion worth of stock in 2018.

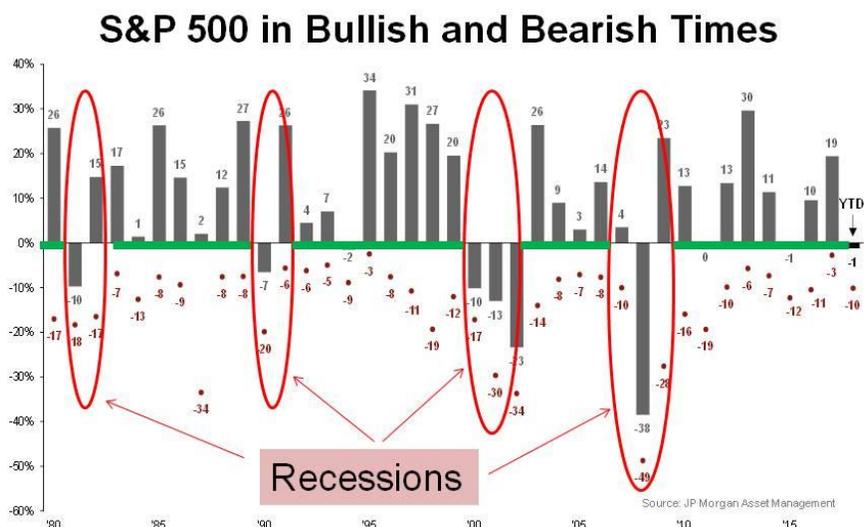
S&P 500 Announced Stock Buybacks



With \$800 billion of stock demand ready to buy the dip, it will be hard to roll this years' market performance into the gutter.

Another protective bumper to stock market performance in 2018 is the absence of a recession. We are approaching the half way mark on the year. The Leading Economic Index and Treasury Yield Curve have historically provided at least six months of advance warning of a recession. Even if these two indicators were to fail us now, employment trends, asset values, earnings, global synchronized growth and a healthy corporate bond market also suggest the likelihood of a recession in 2018 is very low. This past week, the number of job openings in the U.S. increased to 6.6 million, the highest level recorded since the inception of the data recording in 2000. According to the NFIB Small Business Economic Trends Survey, the single biggest challenge facing small business today is finding workers, not growing sales.

Outside of recessions, the calendar year returns of the S&P 500 generally are positive. The chart below shows S&P 500 calendar years returns (not including dividends) since 1980. The grey bars over the green horizontal lines are non-recessionary periods. The red circled areas mark recession.



Over the past 38 years, the worst calendar year return for the S&P 500 index without dividends was -2% in 1994. If you add back dividends, the return was a positive 1.3%. If 2018 remains consistent with the past 38 years of market history, the risk/reward of S&P 500 index investments today is good.

If we look back to the inception of the S&P 500 index in 1957, the two worst calendar years outside of a recession were 1957 and 1966 when the S&P 500 declined by about 11%.

As our equity investments roll towards year-end, they are protected from running astray by record levels of stock repurchases and an expanding economy. Having the bumpers up does not mean that we are certain to enjoy high returns. It does reduce the chances that we will experience a major, sustained market drawdown.

This week, the Delta Market Sentiment Indicator (MSI) turned Bullish and strategies that sidestepped the recent market weakness/volatility are increasing equity exposure.

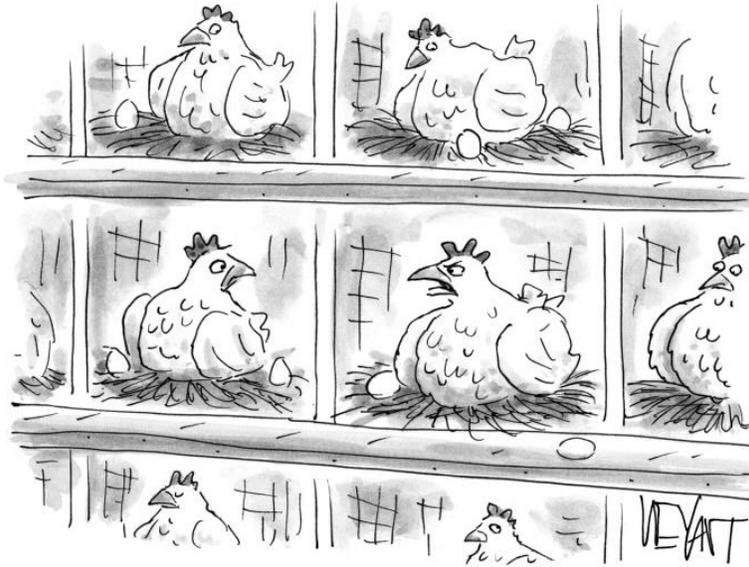
Give Us a Call Today

We invite you to give us a call at **(415) 249-6337**, visit www.deltaim.com or email us at info@deltaim.com if you have questions about how we can assist you in managing your investment accounts.

Happy Mother's Day!



*"Happy Mother's Day, Mom. And ditto for
Thanksgiving and Christmas."*



"Twenty thousand eggs, but do they ever call?"

SPECIAL ANNOUNCEMENT: Stand Up for Heroes next week in San Francisco

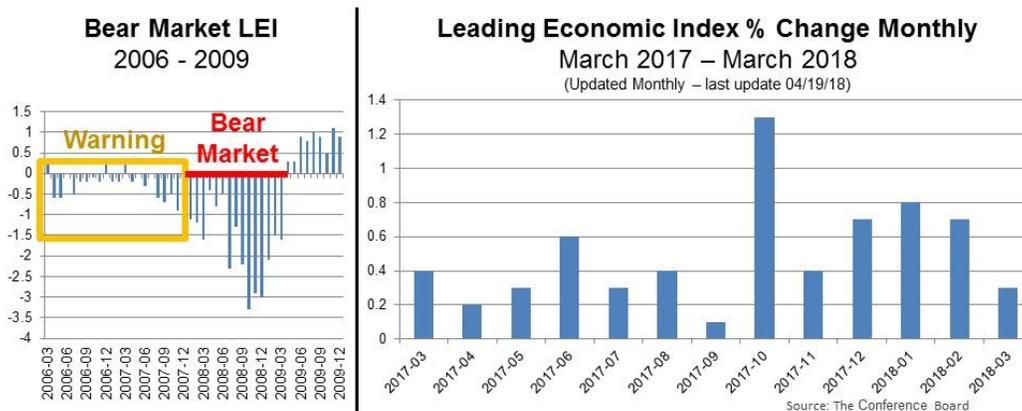


Stand Up for Heroes (SUFH) is slated to make its West Coast debut in San Francisco on Thursday, May 17 at The Masonic featuring extraordinary comedy performances by Dave Attell, Bill Burr, Jeff Ross and other special guests and hosted by Bob Woodruff.

We would like to highlight the incredible work of our friends Bob & Lee Woodruff helping injured heroes. In 2006, Bob was seriously injured by a roadside bomb while covering the war in Iraq for ABC News. His miraculous recovery inspired his family to help injured heroes get access to the high level of support and resources they need. You can learn more about the Bob Woodruff Foundation at bobwoodrufffoundation.org

Tickets are available at Ticketmaster.com - we hope to see you there.

Delta Stock Market Dashboard



INDICATOR STATISTICS

MARKET SENTIMENT IS

BULLISH

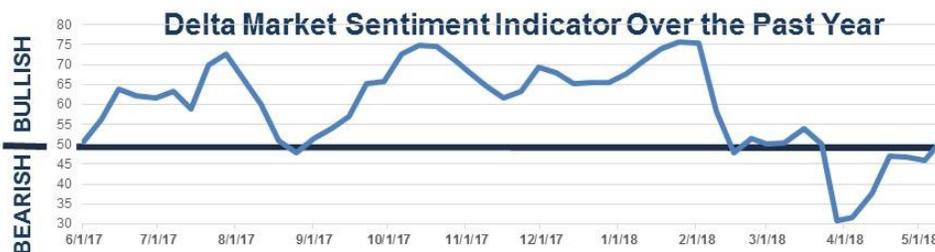
THIS WEEK'S NUMBER IS

51.2

Our technical indicator increased this week from 45.9 to 51.2

Consecutive Bullish Weeks:	1
Cycle Inception Date:	5/10/2018
Range:	51.2
Mean:	NA
Bullish Weeks YTD:	13
Bearish Weeks YTD:	6
*S&P 500	NA
*DJIA	NA
*NASDAQ	NA

* Percentage change during current cycle



(Delta MSI is published every week in *Barron's*)

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