

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.

July 27, 2018

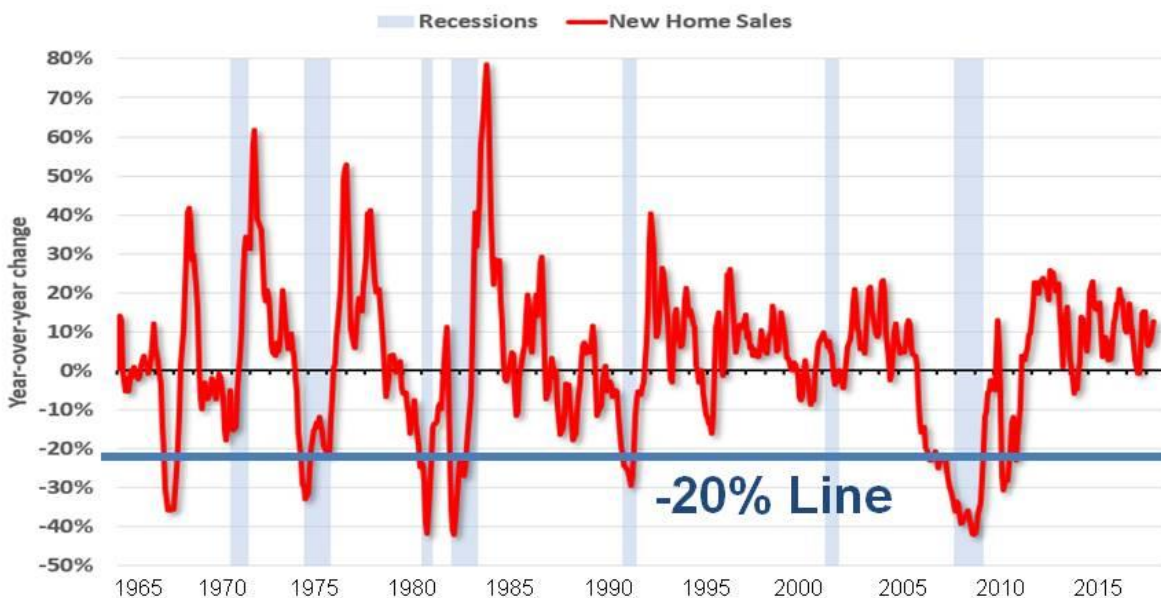
Mid-Year 2018 Observations

New Home Sales:

New home sales convey a lot more information about economic growth than existing home sales. New homes need to be built driving employment and commodity demand (lumber, flooring, roofing, insulation, concrete, etc.) higher. New homes need furniture, appliances, washer/dryers, gardening services, insurance, etc. – all additive to economic activity.

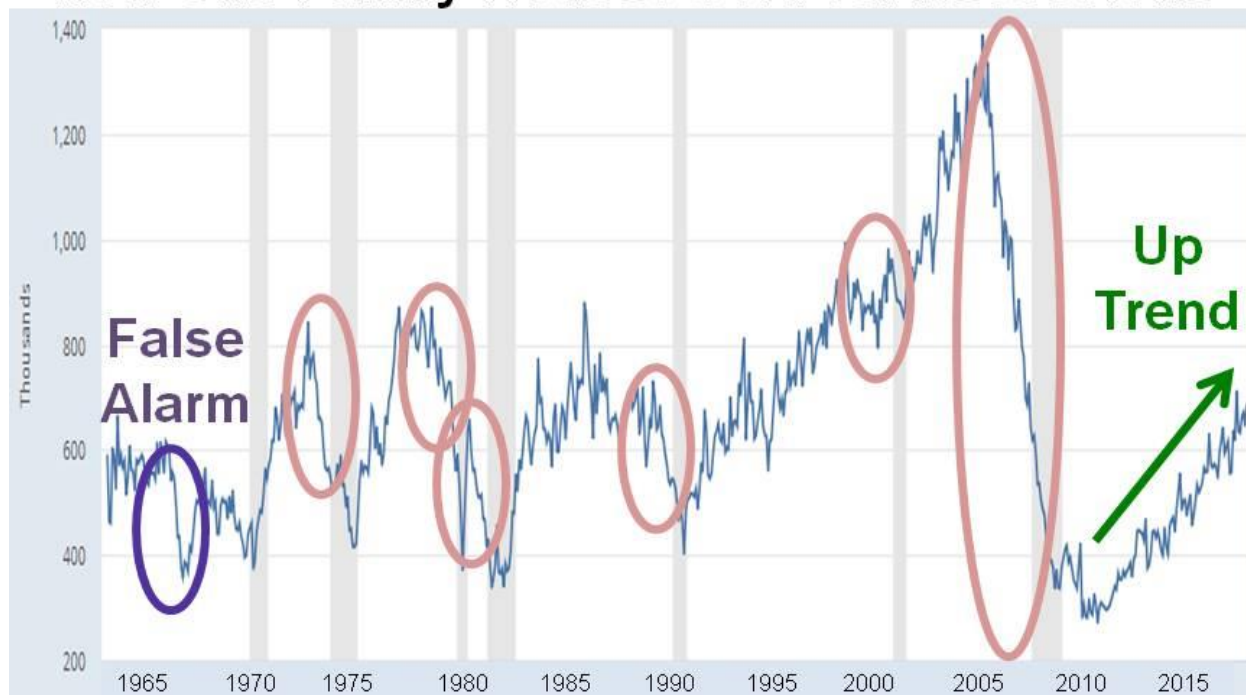
Generally, when the year-over-year change in new home sales falls by about 20%, a recession follows. In 1966, there was an exception and government spending on the Vietnam War buildup kept the economy out of recession. The recession eventually arrived in the early 1970s. The “double” decline in 2010 is considered a part of the housing bust and was driven by the housing tax credit policy in 2009.

Y/Y Change in New Home Sales vs. Recessions



Another way to view the same data is by looking at the volume of homes sold over time. Clearly new home purchasing fades in advance of recessions (again with the Vietnam War exception in the 1960s).

New One Family Houses Sold vs. Recessions



New home sales reported this week at a seasonally adjusted annual rate of 631,000 continues to signal economic growth. The year-over-year change is a positive 2.4%. This data series is in an up-trend.

Mid Quarter Earnings Update:

Second quarter earnings to-date are ahead of expectations. Market data firm, Thomson Reuters I/B/E/S, reports that with about 20% of the S&P 500 having reported, EPS are up 22%, revenues are up 8.3%, and 84% of companies are coming in better than expected.

Finally, a Bull Market:

One measure of a bear market is the loss of interest in stock trading by individual investors. In bull markets, stock trading is popular. This week, discount brokerage firm TD Ameritrade reported earnings. Revenues were up 48.4% year over year. They gathered \$20 billion in new client assets in the quarter. Average client trades per day were 784,000, up 54% year over year.

TD Ameritrade is not alone. Charles Schwab, by far the largest retail discount brokerage, attracted \$119 billion net new assets in the first half of 2018. Retail client

net new assets increased 46% year over year.

The Tesla \$360 Threshold:

How should we think about Tesla: a world changing new-age car company or an over-hyped money losing enterprise in financial trouble. A stock price of \$360 might help guide our thinking.

Tesla has \$1.49 billion in convertible bonds coming due in 2019. If the stock price is above \$360, the convertible bonds convert into Tesla stock. If Tesla stock is below the \$360 level, Tesla will be required to repay the bond holders \$1.49 billion.

Tesla's total debt level is roughly \$10 billion and the company has roughly \$3 billion in cash. It is currently losing about \$1 billion per quarter.

Elon Musk is an unusual individual with a proven ability to attract capital. It is going to be interesting to see if Musk is able to guide Tesla over the \$360 threshold as time passes.

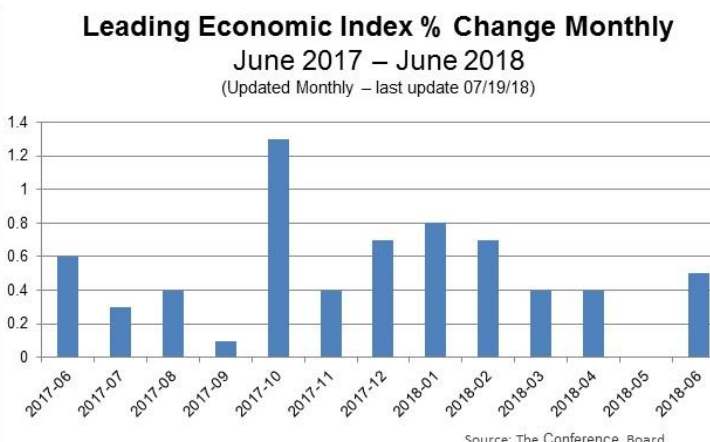
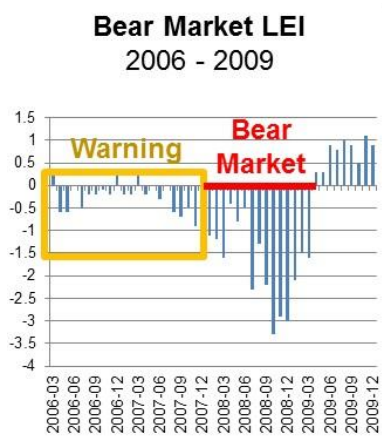
The current expansion has moved slowly over the past nine years. The patient, steady investor who continues to maintain equity exposure has done well. As private equity investor Morgan Housel says, "Avoid disaster, be patient, and you don't need many smart decisions to do well over time."

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.



Delta Stock Market Dashboard

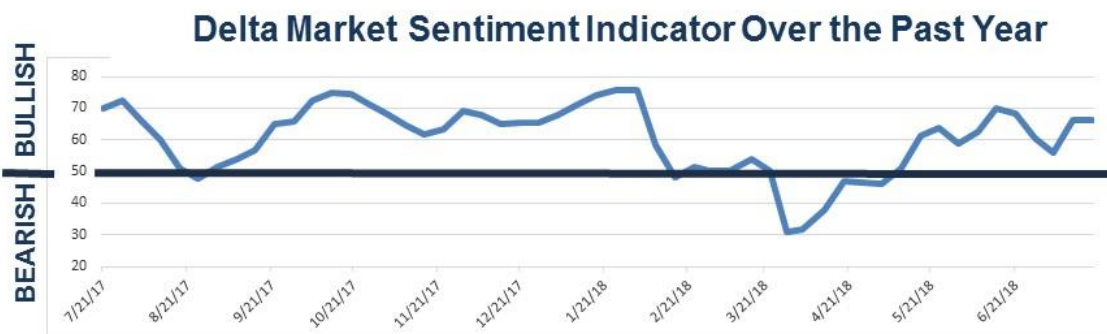


INDICATOR STATISTICS

MARKET SENTIMENT IS
BULLISH
THIS WEEK'S NUMBER IS
66.1
Our technical indicator decreased
this week from 66.2 to 66.1

Consecutive Bullish Weeks:	11
Cycle Inception Date:	5/10/2018
Range:	51.2 – 69.9
Mean:	62.2
Bullish Weeks YTD:	23
Bearish Weeks YTD:	6
*S&P 500	3.2%
*DJIA	1.6%
*NASDAQ	5.9%

*Percentage change during current cycle



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

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