

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.

August 10, 2018

Is 2018 Going to Be a Good Year for Stocks?

As of this date, all indications are we will have a good year. 81% of the S&P 500 companies have reported earnings through Friday of last week. 80% beat the earnings estimates and 74% reported revenue upside. Earnings are on pace to grow this quarter by 24%. Revenues are up 9.8% year-over-year. This is great performance in a roughly 4% GDP growth economy.

The consensus 2019 S&P 500 earnings estimate is \$178.64. At the all-time high value of 2,872.87 on the S&P 500 index, the P/E on 2019 earnings is 16.1x. The 25-year average forward P/E is 16.1x. Given the significant earnings outperformance of the first two quarters, we expect consensus earnings estimates to be revised higher.

An investor may wonder why the stock market is up only about 8% on earnings growth of 24%. What is offsetting the earnings growth are rising interest rates. The 10-year treasury rate has risen from 2.4% to about 3% this year, an advance of 25%. Rising rates increase the discount factor applied to forward earnings to establish market valuation today. This year, the market advance seems rational given the primary inputs of earnings growth and rising rates.

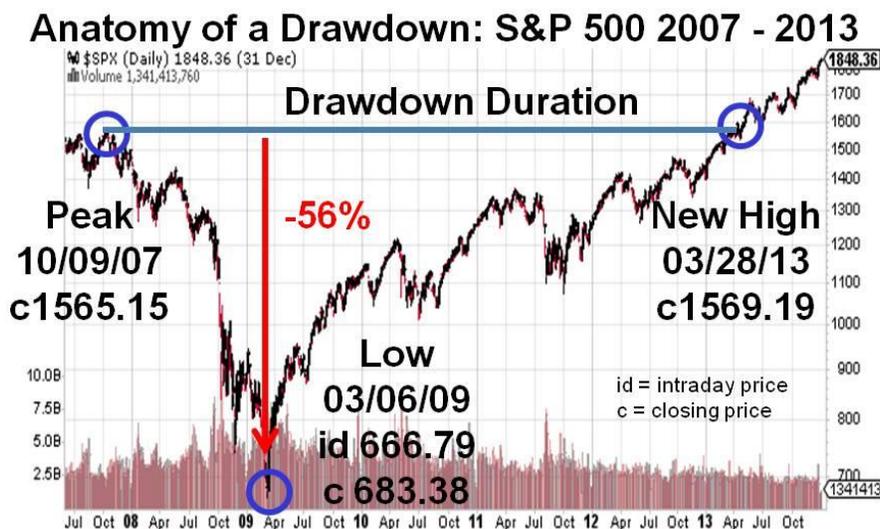
In the past, we have used intermodal rail traffic (shipping containers that may be transferred from boat to rail to truck) as a fundamental measure of economic activity. Year-over-year, containers shipped were up 6.9% in July and were by far the most ever in total for the month of July. No recession in intermediate-term sight.

Answer to frequently asked question: What is a Drawdown?

When we talk with investors, we are often asked how we define a drawdown. Answer: the maximum decline from a high before a new high is achieved.

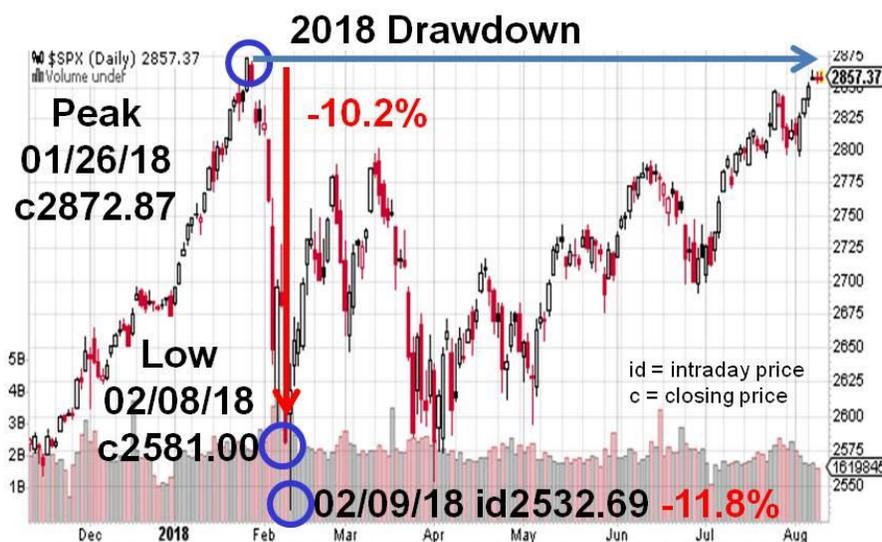
The chart below shows the drawdown of the 2008 recession period. The S&P 500 had a closing high of 1,565.15 on October 9, 2007. This marked the start of the drawdown. On March 6, 2009 the S&P 500 closed at 683.38 (intra-day low of 666.79). The

drawdown was about -56%. The drawdown period did not end until March 28, 2013 when the S&P 500 closed at a new high of 1,569.19.



Drawdowns are not calendar year based. The S&P 500 declined by -37% in 2008. The total drawdown, however, lasted roughly 5 years and three months and had a maximum loss of -56%.

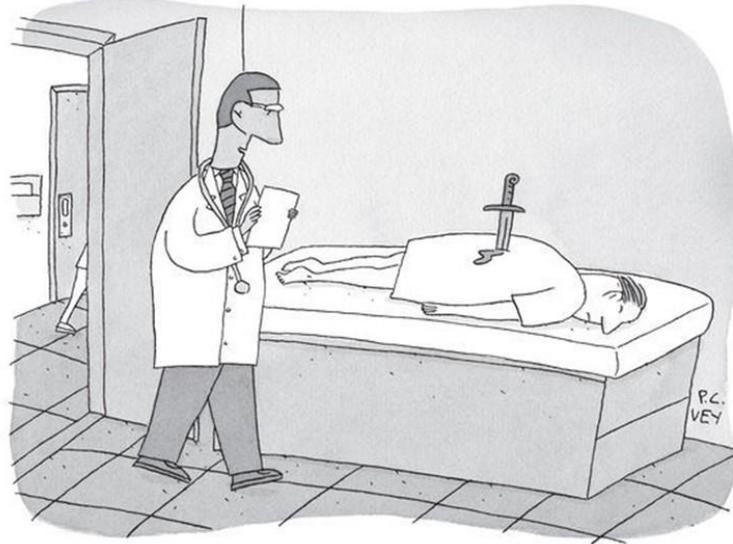
The drawdown that began on January 26, 2018 is now 6 months and 16 days old. This is about double the amount of time drawdowns of this magnitude last on average since World War II.



We are very close to obtaining a new high and ending the current drawdown period. During the course of this drawdown period, the S&P 500 multiple on forward twelve month earnings has declined from about 18x to about 16x. From a valuation perspective, the market is more attractively valued today at 2,872 than it was when it first reached this high in January. When and if the S&P 500 reaches a new high, it may add buying interest and another boost to the bull market.

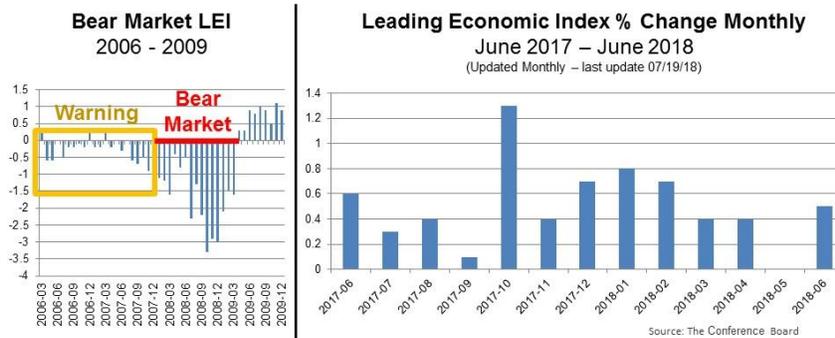
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We invite you to give us a call at **(415) 249-6337**, visit www.deltaim.com or email us at info@deltaim.com if you have questions about how we can assist you in managing your investment accounts.



"Oh, I do love a mystery."

Delta Stock Market Dashboard



MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

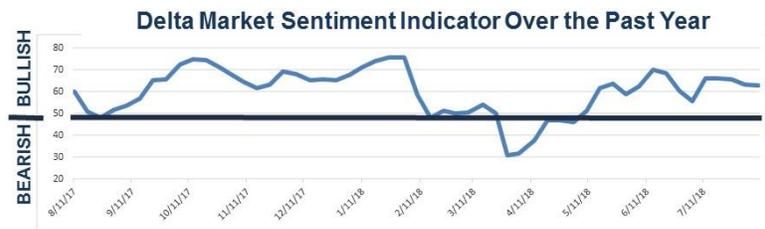
62.9

Our technical indicator decreased this week from 63.4 to 62.9

INDICATOR STATISTICS

Consecutive Bullish Weeks:	14
Cycle Inception Date:	5/10/2018
Range:	51.2 – 69.9
Mean:	62.6
Bullish Weeks YTD:	26
Bearish Weeks YTD:	6
*S&P 500	5.0%
*DJIA	3.4%
*NASDAQ	7.0%

* Percentage change during current cycle



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

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