

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 24, 2018

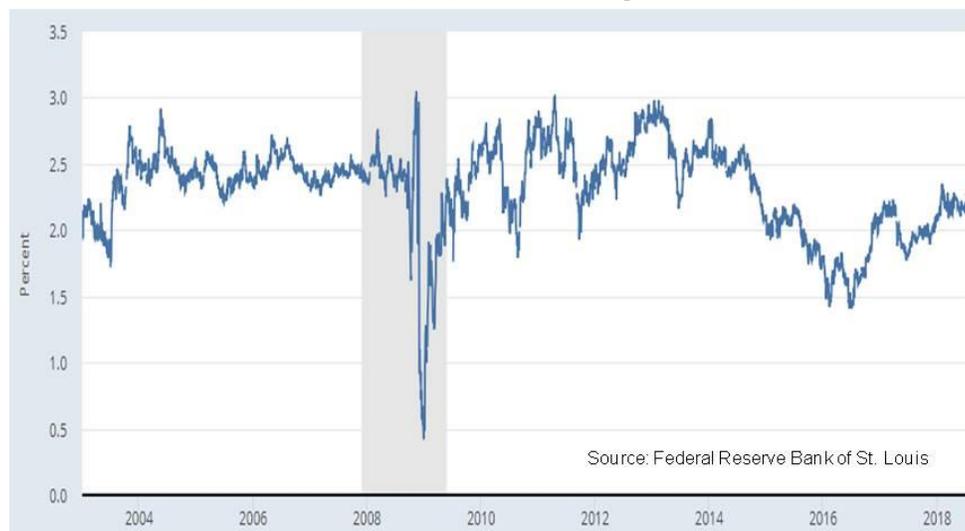
The World According to Brian Cornell

Who is Brian Cornell? He was the chief marketing officer of Safeway. He has been the CEO of Michaels, Sam's Club and PepsiCo Americas Foods. He has been on the board of directors of OfficeMax, The Home Depot, Polaris Industries and Yum! Brands. He is the chairman of the Retail Industry Leaders Association Board. Brian Cornell knows retail.

Brian is currently the CEO of Target, a job he has held since 2014. He says "This is the best consumer environment I've seen in my career." The company experienced unprecedented growth in same-store sales and foot traffic in the second quarter. "We've never seen traffic growth like this."

With a very strong consumer environment and about a 4% unemployment rate, one might expect inflation to be picking up. The 10-year US treasury remains subdued at 2.8%. The Federal Reserve's five year forward inflation expectation shows no material rise in forward inflation expectations.

5-Year Forward Inflation Expectation Rate



Low inflation expectations suggest lower than expected interest rates. Lower interest rates increase the possibility for stock market multiple expansion. This is bullish.

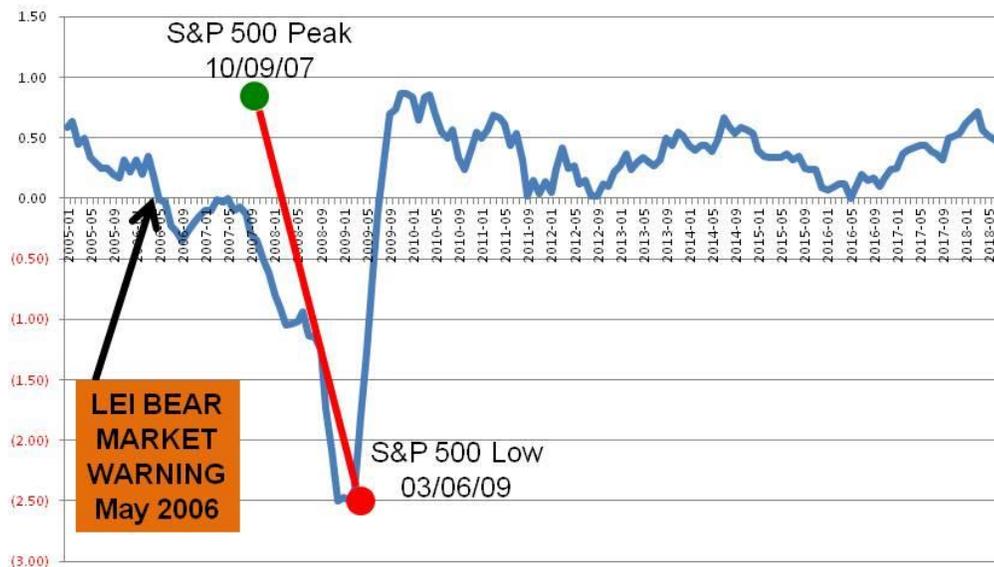
The S&P 500 index touched an all-time high of 2,873.23 intraday this week. On the 2019 consensus earnings projection of \$178.65, the P/E of the S&P 500 remains at about its 25-year average of 16.1x.

Updates on Two of Our Favorite Indicators: LEI and Yield Curve

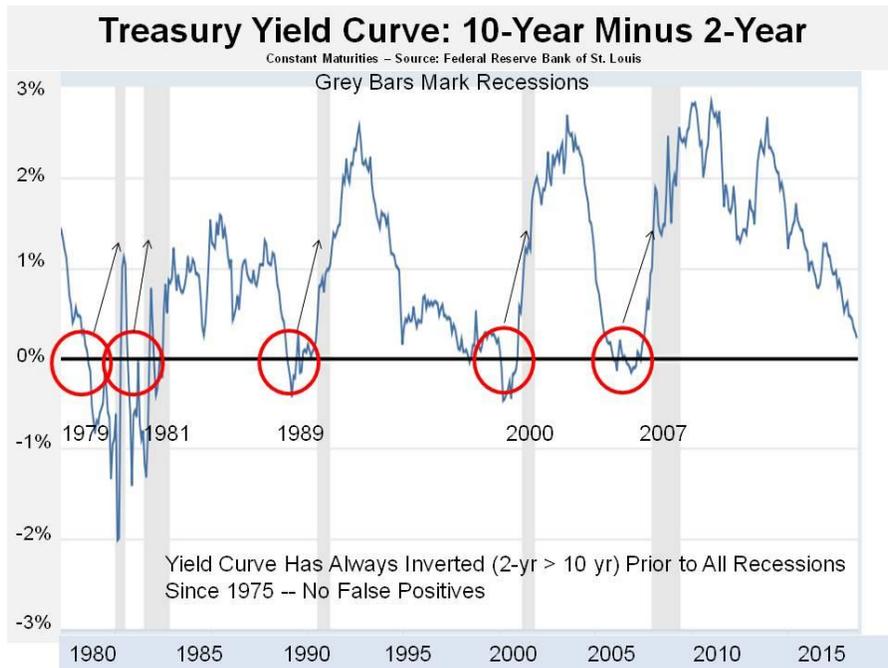
The Leading Economic Index (LEI) for July was released last week. The percent change month-over-month was +0.6%. This was the twenty-third consecutive positive month-over-month change. This is by far the longest stretch of positive consecutive readings during this 9-year bull market.

We like to use a rolling 6-month moving average of the month-over-month change in the LEI as a recessionary warning signal. In the chart below, a recessionary warning signal was activated in May 2006 well in advance of the 2007-2009 Great Recession. Today, the 6-month LEI moving average is far from turning negative.

6-Month Moving Average LEI % Monthly Change



The separation between the 2-year US treasury rate and the 10-year rate is shrinking. With the 2-year rate at about 2.6% and the 10-year at about 2.8%, the differential is narrowed to ~0.2% from ~0.9% a year ago. A tight spread does not signal recession and tightening often occurs in expansions. A negative/inverted spread has been a reliable indicator in the past. As far as an inversion of the yield curve goes, we do not currently have a recession warning.



Although the bull market has lasted for years, we are unaware of any disciplined, robust quantitative indicator that says it is about to end this year. We continue to believe the best course of action is to stay invested and to have a plan in place to reduce risk assets ahead of the next major pullback.

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.



"It's almost back-to-school time. Steal some office supplies."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

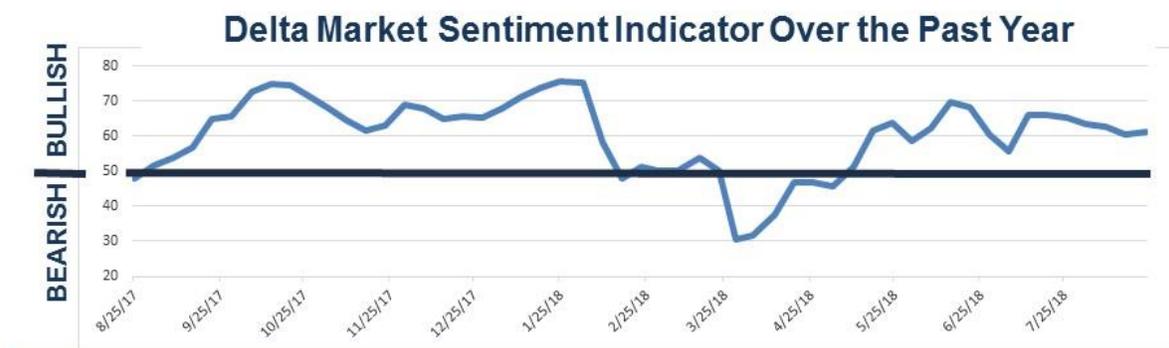
61.4

Our technical indicator increased
this week from 60.6 to 61.4

INDICATOR STATISTICS

Consecutive Bullish Weeks:	16
Cycle Inception Date:	5/10/2018
Range:	51.2 – 69.9
Mean:	62.6
Bullish Weeks YTD:	28
Bearish Weeks YTD:	6
*S&P 500	4.9%
*DJIA	3.7%
*NASDAQ	6.5%

*Percentage change during current cycle



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

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