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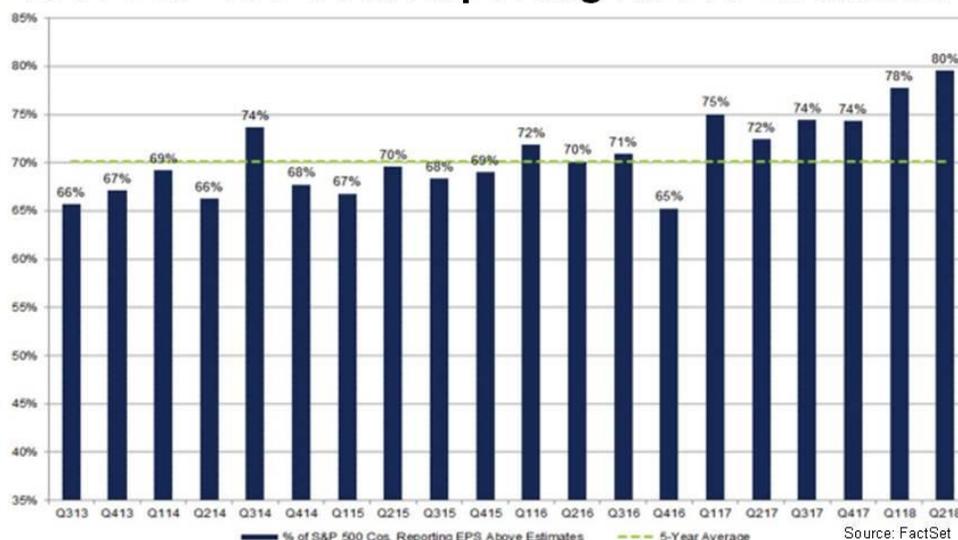
September 14, 2018

Another Quarter, Same Old Story

S&P 500 earnings in 2018 are about 25% higher than they were in 2017. Stock prices are responding to this advance. The next round of earnings announcements (third quarter) begins in October. We should expect a continuation of better than expected earnings news.

In the second quarter, 80% of the S&P 500 companies beat the mean analyst estimate. This was the highest beat rate since FactSet began collecting this data in Q3 2008. The second highest beat rate of 78% occurred in the first quarter of this year.

% of S&P 500 Cos. Reporting Above Estimates



The expected S&P 500 earnings for 2018 and 2019 are currently \$162.17 and \$178.80, respectively. A year ago, these estimates were \$146.11 and \$160.53. Given the record pace of companies exceeding estimates so far this year, it is reasonable to expect further upward revisions to estimates.

Offsetting the bright earnings outlook are Federal Reserve interest rate hikes and potentially escalating trade tariffs. This mix has defined the investment landscape for

almost all of 2018. So far, 25% earnings growth has driven stocks up the “wall of worry” even with S&P 500 P/E multiple compression. We do not expect this dynamic to change when third quarter earnings are reported in several weeks.

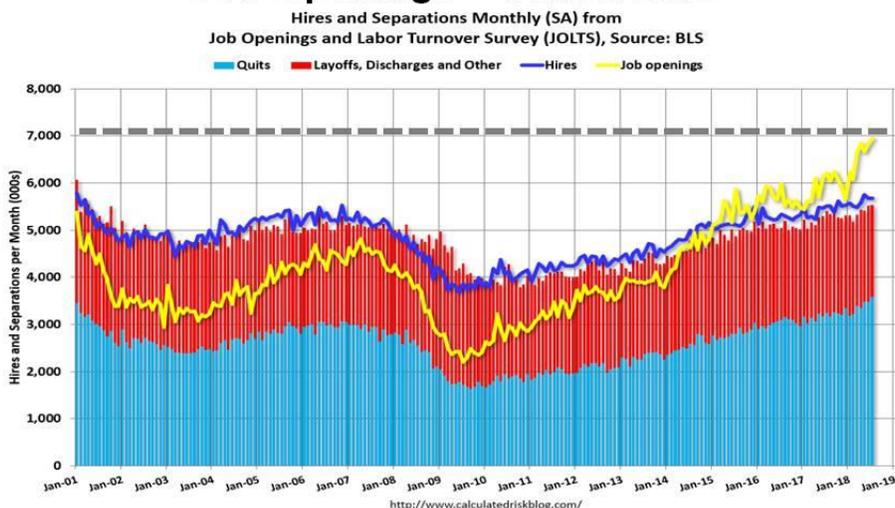
More Records Fall

The NFIB Small Business Optimism Index reached 108.8 in August, a new record in the survey’s 45-year history.



Job openings are up 12% year-over-year and reached a 45-year record high.

Job Openings – Yellow Line



Is Fear Guiding Your Investment Making Decision Process?

A year ago, the S&P 500 index was roughly 2,500. This represented a P/E of 17x on consensus earnings expectations for 2018 of 146.11. The stock market appeared to be fully/fairly valued. Looking back, what we now see is the P/E on actual 2018 earnings was closer to 15x below the 25-year average of 16x on forward earnings.

Today, the stock market is trading at about 16x the 2019 consensus estimate. But as earnings surprise to the upside, it is quite possible that the 2019 earnings estimate is too low by about 10%. Like a year ago, 10% better than expected earnings in 2019 would make the current P/E closer to 15x. Relative to historical benchmarks and current earnings growth rates, 15x could be considered inexpensive.

Are you letting time pass waiting for a market correction that may not occur for several more years? If this describes you, give us a call to see how we can help.

Looking for help managing your investment portfolio?

Give us a call at **(415) 249-6337** or email us at info@deltaim.com to set up a time to talk if you have questions about how we can assist you in managing your investment accounts. Our disciplined approach to invest in the strongest areas of the market and a focus on capital preservation is how we help clients.



"It's very simple. If I was a cat, you would love me."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

56.1

Our technical indicator decreased
this week from 62.3 to 56.1%

INDICATOR STATISTICS

Consecutive Bullish Weeks:	19
Cycle Inception Date:	5/10/2018
Range:	51.2 – 69.9
Mean:	62.1
Bullish Weeks YTD:	31
Bearish Weeks YTD:	6
*S&P 500	6.4%
*DJIA	5.4%
*NASDAQ	8.2%

* Percentage change during current cycle

Delta Market Sentiment Indicator Over the Past Year



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

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