

*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.

October 5, 2018

False Peak

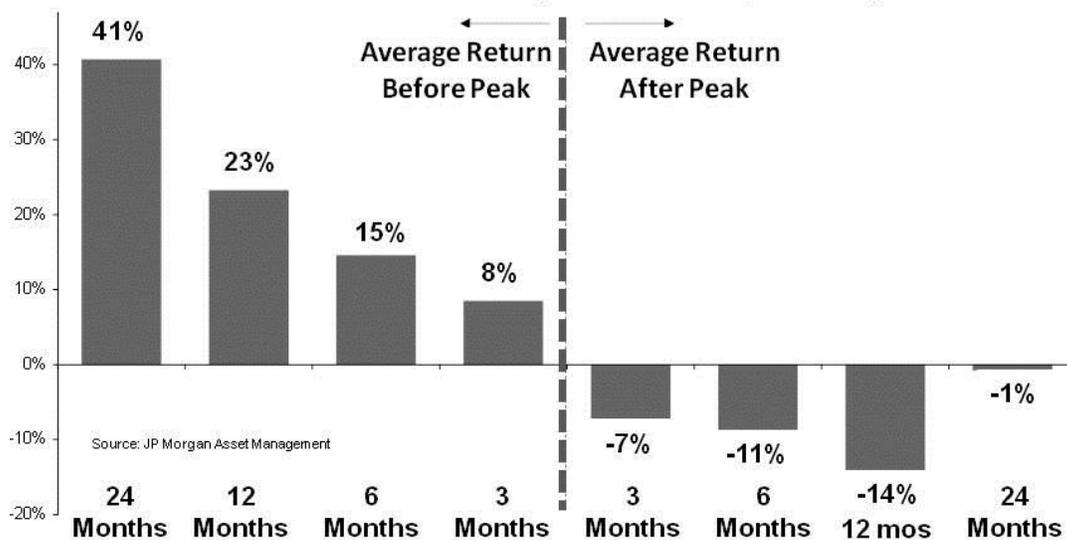
When climbing a mountain, it is fairly common to look up and see what appears to be the summit. Upon arriving at this high point, it becomes apparent that the actual peak is further ahead. As a tired climber, this can be disappointing. For an investor, higher highs are a positive.

JP Morgan Asset Management works with thousands of registered investment advisors. They report the number one client question currently is “when is there going to be a stock market downturn?” In other words, are we there yet? Have we reached the peak? Vanguard reports that ultrashort (duration) bonds (very conservative) continue to be the largest driver of overall net cash fund inflows.

It’s true the U.S. economy is headed for a recession. It’s true the 10-year bull-run will eventually end. The current economic expansion has lasted 111 months (second longest on record) versus the average of 47 months over the past 118 years. It’s also true that a chance of recession in the next six months is unlikely. There are almost no technical or fundamental data that points to a recession currently.

What if the stock market peaks sometime in the next three to twenty four months? What amount of return should we expect before we reach the peak? The chart below shows the average performance of the stock market at various intervals prior to and following the past eleven market peaks that have occurred since World War 2.

Average Return Leading Up To and After Stock Market Peaks (S&P 500 TR Index, 1945-2017)



History shows that we do not want to get off the mountain too early. If the actual peak does not occur for another 24 months, the market may appreciate by 41%. In the next three months, it may go 8% higher.

If we apply the current S&P 500 P/E multiple on the 2020 consensus earnings estimate, we arrive at about 9% appreciation over the next twelve months. The chart above shows an average of 23% appreciation a year before the peak is reached.

If an investor were to buy and hold the S&P 500 for the four year period including 24 months before the peak (up 41%) until 24 months after the peak (down -1%), the average annual rate of return would be roughly 9% or very close to the long-term expected return of owning the S&P 500. On average, one might wonder what all the fuss is over predicting the peak.

When non-emotional, economic and stock price data with high predictive power changes our assignment of probabilities for recession and a stock market peak, we will update our investment positioning to account for the rising or falling risk outlook. For now, the peak reached by the Dow Jones Industrial Average this week appears to be just another high point on a long climb to the eventual peak.

Highs and Lows

The average American's credit score reached a record high of 704 in late September, according to FICO credit scoring system. FICO scores, which range from 300 to 850, slumped to an average of 686 during the Great Recession.

The World Bank says the number of people living in extreme poverty – on less than \$1.90 a day – around the world has fallen to a record low of 736 million. That is 1 billion

fewer than in 1990. The share of people living in extreme poverty in East Asia has dropped from 62% in 1990 to 2% today.

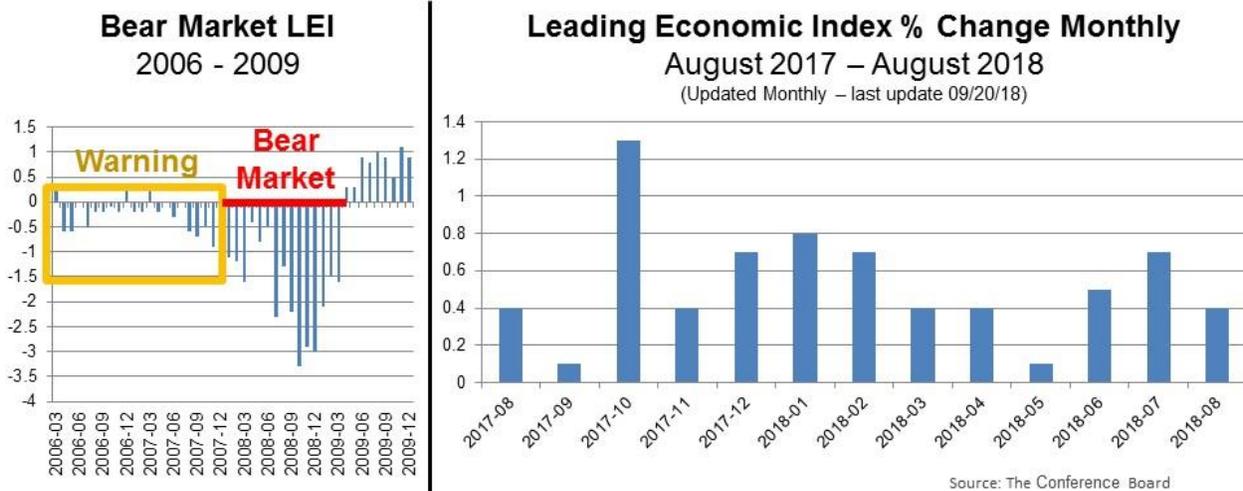
Looking for help managing your investment portfolio?

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 not enough that we succeed. Cats must also fail."

Delta Stock Market Dashboard



INDICATOR STATISTICS

MARKET SENTIMENT IS

BULLISH

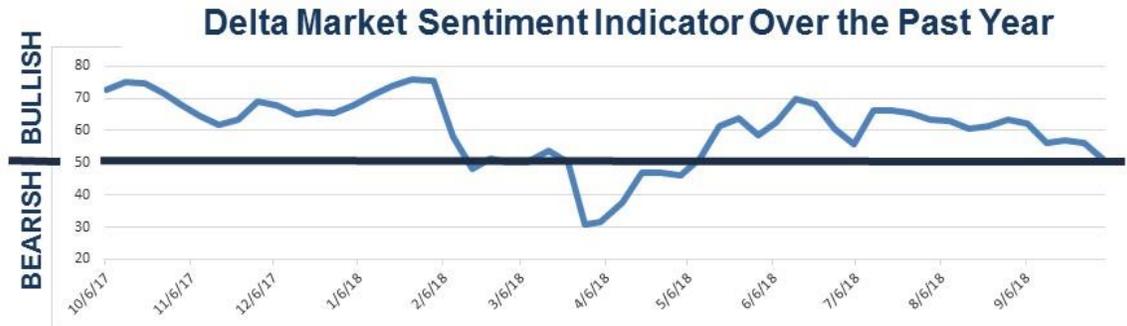
THIS WEEK'S NUMBER IS

50.8

Our technical indicator decreased
this week from 56.0% to 50.8

Consecutive Bullish Weeks:	22
Cycle Inception Date:	5/10/2018
Range:	50.8 – 69.9
Mean:	61.1
Bullish Weeks YTD:	34
Bearish Weeks YTD:	6
*S&P 500	6.5%
*DJIA	7.5%
*NASDAQ	6.6%

**Percentage change during current cycle*



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

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