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Delta manages portfolios at TD Ameritrade and Schwab.
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October 19, 2018

The Delta Market Sentiment Index (MSI) Multi-Purpose Tool

Every week, we publish the Delta Market Sentiment (MSI) indicator in this newsletter. Dow Jones & Company publishes the Delta MSI in their magazine *Barron's* and on-line in their electronic newsletter *Market Lab*.

The Delta MSI is an intermediate-term (several months) market sentiment indicator that uses roughly 1,800 stock prices to assess the sentiment of the market. It has been argued that all information known by investors is evident in the price of a stock. We compare the prices of the stocks we follow to an intermediate-term moving average.

The Delta MSI is the Swiss Army Knife of intermediate-term market sentiment indicators. It is a multi-purpose tool. In this newsletter, we primarily use it to signal Bullish/Bearish. When the majority of stocks are above the moving average, sentiment is bullish and market risk (the risk premium) is attractive. On the other hand, when the majority of stocks are below the moving average, sentiment is bearish and market risk is elevated.

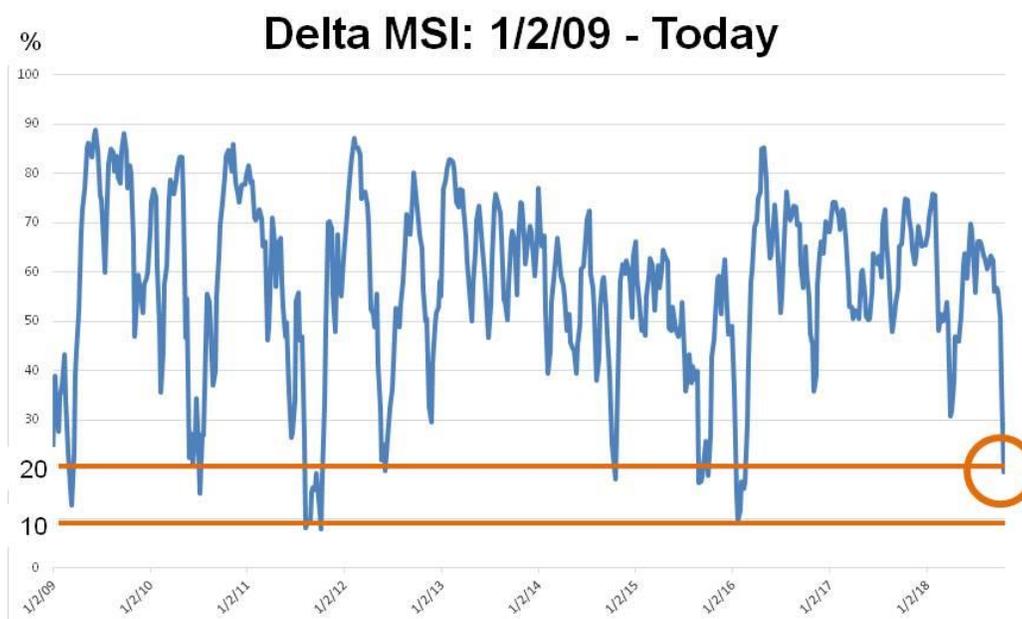
Bullish/Bearish is just one use of the MSI. Overbought/Oversold is another. The MSI can help investors implement the strategy of buy low, sell high.

Because the MSI is measured as a percent, its range is 0% to 100%. As the indicator moves closer to these extremes, it is becoming either oversold (moving towards 0%) or overbought (moving towards 100%). Buying an extremely oversold market raises the likelihood an investor is buying low and selling an overbought market raises the likelihood and investor is selling high.

The market sell-off in October has caused the majority of stocks to fall below the intermediate term moving average. This is Bearish on an intermediate term basis. During Bearish times, volatility is often elevated indicating investors are uncertain and anxious. On average, bearish periods last six weeks.

Occasionally, the market becomes extremely oversold creating a potential attractive buying opportunity. The MSI helps quantify these oversold times. Today, the MSI is 19.6%.

Since January, 2009 through today, we have only had eight instances when the MSI declined below 20%. Shown below is a chart of the MSI since January 2, 2009. Buying the market when the MSI dropped below 20 previously during this bull cycle has benefitted patient investors willing to incur heightened market volatility.



When the Delta MSI drops below 10%, Delta's MSI based strategies may buy stocks. During the current bull cycle beginning in 2009, this has happened only twice. Over the past 27 years, it has happened five times. These times were:

- August 1990
- September 1998
- July 2002
- October – December 2008
- August 2011

The chart below shows the price change in the S&P 500 from the closing monthly price when the MSI went below 10% to twelve months and three years later. The chart does not include the additional benefit of dividends during the holding periods.

S&P 500 Price Change From <10% MSI					
To Twelve Months Later Without Dividends					
		12	3	12	3
		Months	Years	Months	Year
	<10% MSI	Later	Later	Percent	Percent
	Month	Price	Price	Change	Change
Aug-90	322.56	395.43	458.93	23%	42%
Sep-98	1017.05	1282.71	1040.94	26%	2%
Jul-02	911.62	990.31	1234.18	9%	35%
Nov-08	896.24	1036.19	1253.3	16%	40%
Aug-11	1218.89	1406.58	2003.37	15%	64%

Overbought conditions may persist for a much longer time than oversold conditions. An overbought market may have momentum which allows it to keep climbing while being overbought.

Stock market history is a guide to but not a guarantee of future results. Delta's fundamental macro-economic indicators show a low probability of recession in the next six months. The Leading Economic Index (LEI) for September (reported this week) was up +0.5%, the 25th consecutive up month. In the absence of recession, buying an oversold market has historically worked over time. The caveat to buying into a Bearish, oversold market is an investor should expect high volatility and the possibility the market moves lower in the intermediate term before trending higher.

Looking for help managing your investment portfolio?

Our wealth management services are devoted to the task of building and protecting client wealth. 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.



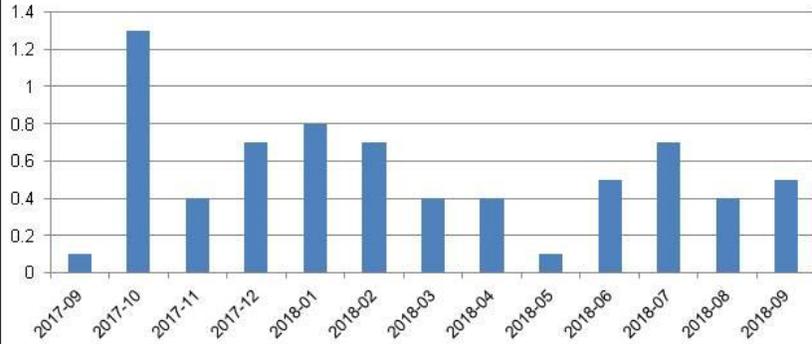
"It's lotto fever."

Delta Stock Market Dashboard

Bear Market LEI
2006 - 2009



Leading Economic Index % Change Monthly
September 2017 – September 2018
(Updated Monthly – last update 10/18/18)



Source: The Conference Board

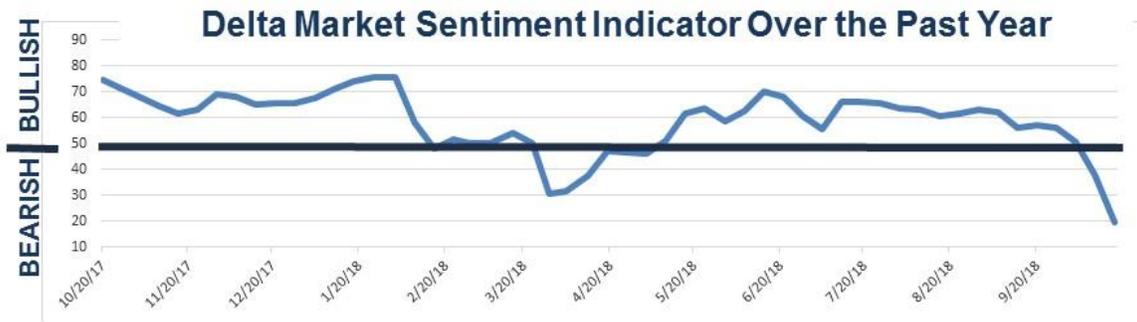
MARKET SENTIMENT IS
BEARISH

THIS WEEK'S NUMBER IS
Our technical indicator decreased
this week from 37.4 to 19.6

INDICATOR STATISTICS

Consecutive Bearish Weeks:	2
Cycle Inception Date:	10/11/2018
Range:	19.6 - 37.4
Mean:	37.4
Bullish Weeks YTD:	34
Bearish Weeks YTD:	8
*S&P 500	-0.6%
*DJIA	-0.9%
*NASDAQ	1.0%

* Percentage change during current cycle



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

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