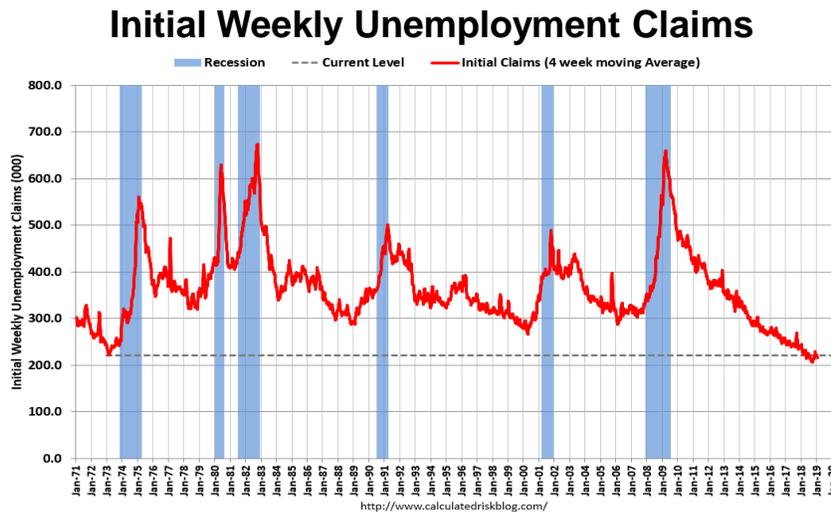


Delta Investment Management is a registered investment advisory firm headquartered in San Francisco. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new partner. Delta manages portfolios at TD Ameritrade and Schwab. Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

January 25, 2019

Running In Slowing Motion – Finding Balance

The U.S. economy is expanding. Unemployment is at 3.9%. Weekly initial jobless claims decreased by 13,000 to 199,000 for the week of January 19. This is the lowest level of initial claims since November 15, 1969.

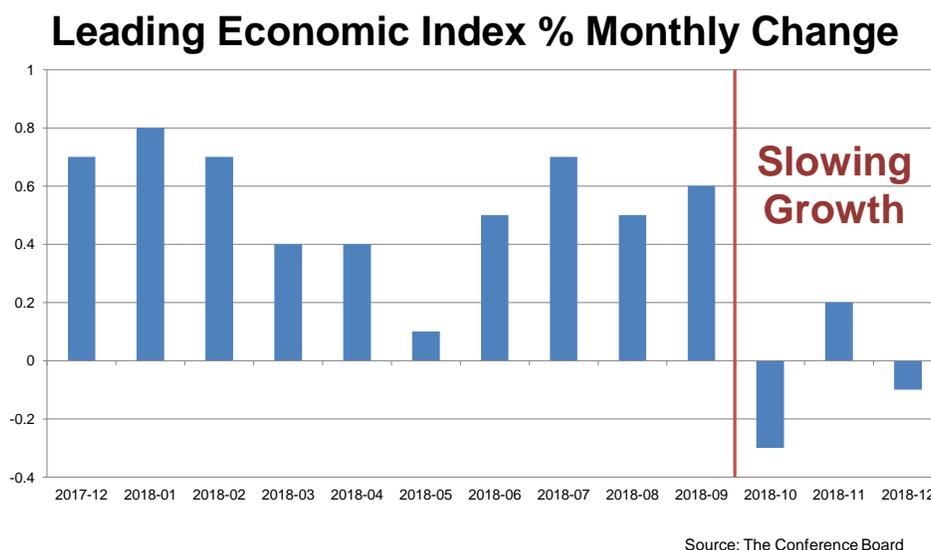


Although almost everyone is working and the economy is growing, the 10-year U.S. treasury interest rate is at 2.7%. With inflation at about 1.8%, investors are willing to accept a 0.9% per year real (nominal less inflation) rate of return a year for the next ten years. The low real return of the U.S. treasury rate suggests investors expect slow growth for a long time.

Mario Draghi, President of the European Central Bank, spoke to the press this week and said risks have moved to the downside. Global expansion continues but at a slower pace. U.S. Commerce Secretary Wilbur Ross said on CNBC this week that he sees global economic slowdown. Ross says the U.S. and China are “miles and miles” away from reaching a trade deal.

The Leading Economic Index has been negative two out of the last three months confirming the slowing growth commentary. (note: Delta’s analysis shows the LEI does

not predict a recession until the six-month moving average turns negative. This has not occurred.)



Stock prices are being pulled higher by full employment and solid earnings growth and lower by the ramifications of an economy that is slowing from about 3% growth to something less.

In this mixed message economic environment, stocks find balance via valuation. In 2018, S&P 500 operating earnings increased by an estimated 25%. The S&P 500 including dividends lost 4.56% of its value for the year. 2019 S&P 500 earnings are expected to advance another 6% and 11% year-over-year in 2020. When earnings rise and stock prices don't, valuation becomes increasingly attractive and provides price support.

Without a resolution of the China trade dispute, we would expect stocks to remain at below-average valuations until it becomes clearer how far the slowdown will go. Because earnings are rising, downside is limited by attractive valuation. If the trade dispute is resolved favorably, the presumption is global growth may reaccelerate and stock valuations (multiples) may rise back to historic norms. If both earnings and multiples rise, stocks could demonstrate a significant advance from current levels.

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.



"Save my spot?"

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

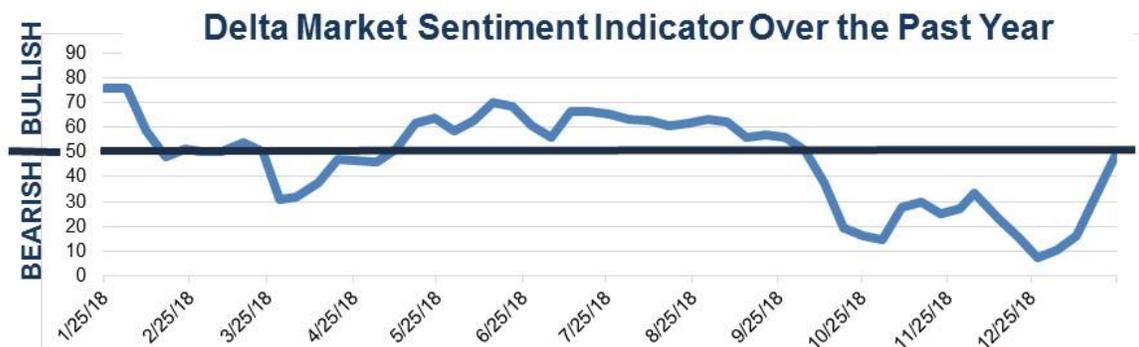
48.8

Our technical indicator increased
this week from 32.4 to 48.8

INDICATOR STATISTICS

Consecutive Bearish Weeks:	16
Cycle Inception Date:	10/11/2018
Range:	7.5 – 48.8
Mean:	24.1
Bullish Weeks YTD:	0
Bearish Weeks YTD:	4
*S&P 500	-5.3%
*DJIA	-4.3%
*NASDAQ	-5.0%

* Percentage change during current cycle



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

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