

*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](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

April 12, 2019

### Rule of 20

For the past 74 trading days, the S&P 500 has been working its way towards its previous high of 2,940.91 on September 21, 2018.



Since 1950, the S&P 500 has experienced 13 pullbacks in the range of 10-20%. The average trading days to recovery is 71. When and if the S&P 500 regains its old high, it will be recorded as the 14<sup>th</sup> 10-20% pullback and will most likely be typical of prior pullbacks of this magnitude.

## S&P 500 Drawdown History

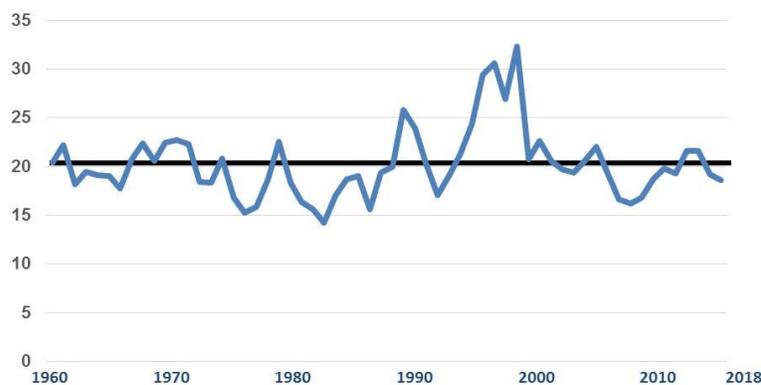
Drawdown %	Occurrences	AVG Days to Recovery	AVG Days of Decline
5-10	40	34	24
10-20	13	71	98
20-30	4	182	260
30-40	2	432	220
40+	3	1215	476

1/3/1950 – 1/4/2019, Days are trading days only

For the market to return to its previous high, it will advance about 1.7% from current levels. This is hardly a compelling upside story. Is there a case to be made for the S&P 500 index to run materially higher than 2,940 in the next year? The bullish price action of the stock market year-to-date suggests there is upside to consensus earnings and growth estimates.

One simple, time-tested rule of investing is the Rule of 20. The Rule of 20 says the S&P 500 Price/Earnings (P/E) multiple equals 20 minus inflation. The Federal Reserve currently measures inflation at 1.4%. 20 less 1.4 equals 18.6. If we apply the 18.6 P/E multiple derived from the Rule of 20 to the consensus S&P 500 2020 earnings forecast of \$187.42, we arrive at a price target of roughly 3,500 on the S&P 500 about one year from now. That is 21% upside from current levels.

### RULE OF 20 P/E + INFLATION



Source: S&P, Bloomberg, Bureau of Labor Statistics

Next week, earnings season begins. We will begin to see if the market correctly anticipated better than expected earnings. If the market's instincts are correct about fundamental upside, we would not be surprised if the Rule of 20 holds true by year end.

### **Give Us a Call Today**

We invite you to give us a call at **(415) 249-6337**, visit [www.deltaim.com](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com) if you have questions about how we can assist you in managing your investment accounts.



*"I'm a Schedule D kind of guy with a little  
Schedule E thrown in."*

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## **Delta Stock Market Dashboard**

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

**77.6**

Our technical indicator increased  
this week from 72.5 to 77.6

**INDICATOR STATISTICS**

Consecutive Bullish Weeks:	11
Cycle Inception Date:	1/31/2019
Range:	59.5 – 77.7
Mean:	72.3
Bullish Weeks YTD:	11
Bearish Weeks YTD:	4
*S&P 500	7.1%
*DJIA	4.9%
*NASDAQ	9.5%

\* Percentage change during current cycle



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

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