

*Delta Investment Management is a registered investment advisory firm. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new turnkey asset management solution.*

*Delta manages portfolios at TD Ameritrade and Schwab.*

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May 24, 2019

### Delta MSI Bearish

This week the Delta Market Sentiment Indicator (MSI) turned Bearish at 44.1%. Readings of less than 50% indicate elevated stock market risk and are bearish. Delta's investment strategies linked to this intermediate-term, trend following indicator including Kress Tactical and Capital Appreciation transitioned to cash.

Below is a chart of recent MSI signals overlaid on the S&P 500 index.



On Friday of last week, The Conference Board reported the Leading Economic index (LEI) month over month percentage change in April as positive 0.2%. The readings were also positive in February and March. Delta uses the LEI as an indicator of recession risk. As of the latest readings, recession is unlikely in the next six months.

The 10-year U.S. treasury rate is roughly 20 basis points higher than the 2-year rate. This means the yield curve has a positive slope and is not currently signaling recession.

Outside of recessions, stock market pull-backs tend to be brief. The S&P 500 is down by about 5% from its all-time intra-day high of 2,954 reached on May 1. Since 1950, the S&P 500 has declined by 5-10% 40 times. The average days of decline has been 24 trading days and average days of recovery is 34 trading days.

Although non-recessionary pull-backs are brief, they can be painful. The 20% decline in the fourth quarter of last year was a good example of a painful non-recessionary pullback.

Managing the volatility of the stock market and avoiding major loss is a complex assignment. Primary factors include investment horizon and tax exposure. The importance of not losing money rises as an investor's time horizon diminishes. The balance of funds in tax deferred accounts versus taxable accounts may impact an investor's tolerance for market volatility.

The single biggest issue for many investors when experiencing market volatility is controlling their emotions. The chart below shows 5-year annualized returns for Emerging Markets (very volatile), US Small Cap Growth (somewhat volatile) and US Large Blend (e.g., S&P 500 – less volatile). In the center column of the chart, it shows the realized return of the average investor in each asset class. Performance declines as volatility rises. The far right column shows what percent of the asset class performance was captured on average.

### Managing Volatility

Asset Class	Total Ret Annlzd 5 Yr (Mo-End) Base Currency %	Investor Ret Annlzd 5 Yr (Mo-End) %	Performance Declines as Volatility Rises
Emerging Mkts	2.86	1.47	51%
US Fund Small Growth	8.27	5.83	71%
US Fund Large Blend	8.80	7.74	88%

Source: Resolute Managers

The pain of loss is twice the magnitude of the joy of appreciation. Feeling out of control and losing money can drive poor investment decisions during volatile market periods.

Delta Investment Management is committed to risk mitigation. To avoid making emotional decisions, we use rules-based systems to decide when to increase and decrease market exposure. We manage an array of strategies to satisfy various investment time horizons, tax situations and specific client investment requirements.

### 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.



*"Daddy, can I stop being worried now?"*

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# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

**44.1**

Our technical indicator decreased  
this week from 48.1 to 44.1

## INDICATOR STATISTICS

Consecutive Bullish Weeks:	1
Cycle Inception Date:	5/23/2019
Range:	48.1
Mean:	48.1
Bullish Weeks YTD:	16
Bearish Weeks YTD:	5
*S&P 500	-
*DJIA	-
*NASDAQ	-

\* Percentage change during current cycle



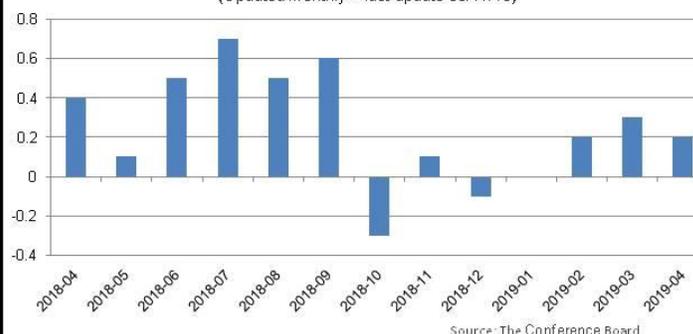
(Delta MSI is published every week in *Barron's*)

## Bear Market LEI 2006 - 2009



## Leading Economic Index % Change Monthly April 2018 – April 2019

(Updated Monthly – last update 05/17/19)



Source: The Conference Board

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