

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.

Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

June 21, 2019

Turning Japanese

The Vapors wrote a song in 1980 with the lyrics “I’m turning Japanese, I think I’m turning Japanese, I really think so.” This may describe what is happening in the U.S. economy.

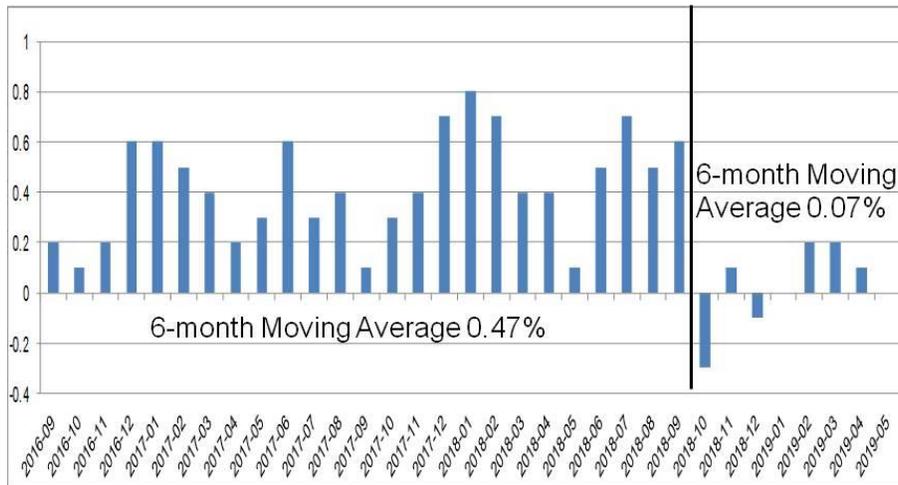
The 10-year sovereign debt yield of Japan is currently negative -0.18%. This means that investors in these government bonds are penalized with negative interest to hold the bonds. They pay interest to own the bonds. Presumably, these investors should be able to find a better use of capital?

GDP growth in Japan has often been negative since 1993 (a third of the time including five consecutive years:1998-2003). The average growth rate from 1980 until 2019 is 0.49%. Zero and negative interest rates in Japan have done little to stimulate economic growth.

The United States is ten years into an expansion cycle with unemployment at 3.6%. Even in an economy with full employment and rising wages, inflation is only 1.6% and economic growth struggles to maintain a long-term 2% pace. Historically, when the economy is at full-employment and in the late stages of an expansion cycle, inflation is rising and the Fed is lifting rates to cool the pace of growth. The takeaway from the Fed meeting this week is the next Fed Funds rate move is down, not up.

The Leading Economic Index for May was reported yesterday as showing zero percent growth over the prior month. The April and March readings were revised lower. The six month moving average LEI is currently 0.7%.

% Change Month/Month LEI



The LEI showed consistent strength from September 2016 through September 2018. Since the fourth quarter of 2018, LEI advances are mixed and tepid. The strength of the two-year period ending September 2018 may be the result of a one-time boost from tax and regulation reductions.

The U.S. 10-year treasury rate dropped below 2% this week. Will a lower rate stimulate the economy? Or, like Japan, are we moving into a period when near-zero rates do little to boost the Main Street economy?

In a growth starved world, U.S. stocks offer growth and some yield. The S&P 500 dividend yield is roughly 1.7%. Earnings are expected to grow in 2020 year-over-year by about 11%. For the past decade, U.S. stocks have been the best house in a bad neighborhood with an average annual return of 14.6%. Even in Japan where economic growth is virtually zero, stocks have risen roughly 130% from the 2009 low.

Arigatōgozaimashita

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.



"I hear he's huge in Japan."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

48.2

Our technical indicator increased
this week from 44.3 to 48.2

INDICATOR STATISTICS

Consecutive Bearish Weeks:	5
Cycle Inception Date:	5/23/2019
Range:	32.7 – 48.2
Mean:	41.2
Bullish Weeks YTD:	16
Bearish Weeks YTD:	9
*S&P 500	4.5%
*DJIA	5.0%
*NASDAQ	5.3%

* Percentage change during current cycle



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

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