

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.

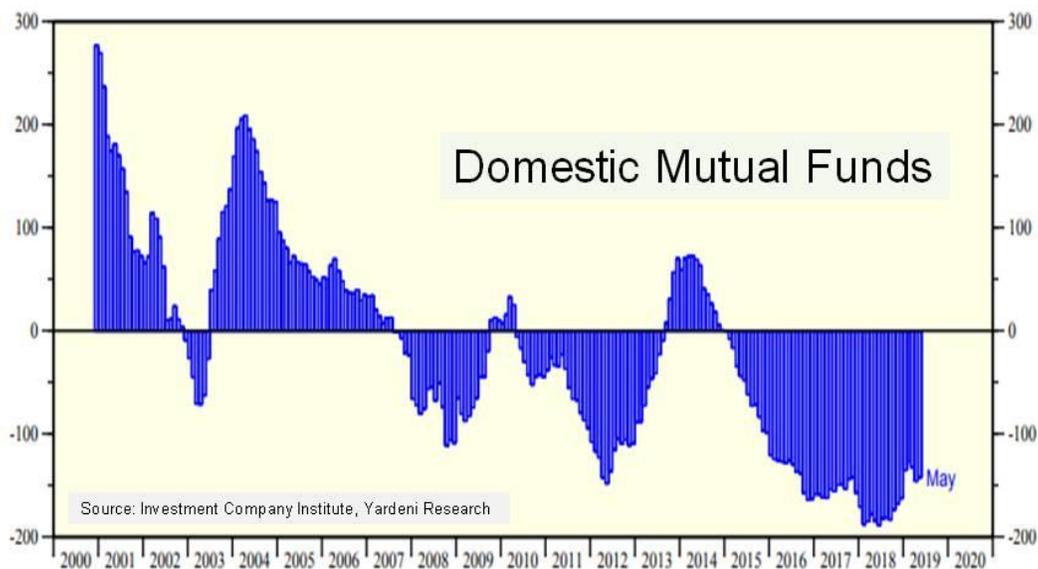
July 26, 2019

Reading the Money Flows

A favorite Wall Street adage is funds follow performance. Funds also flow towards where they are treated most favorably (think tax treatment). In the early stages of an investment lifecycle, discovering accelerating money flows into an asset may lead an investor to an attractive investment. Momentum tends to have follow-through. Towards the end of the investment lifecycle, too much money may have crowded into an asset signaling diminishing returns.

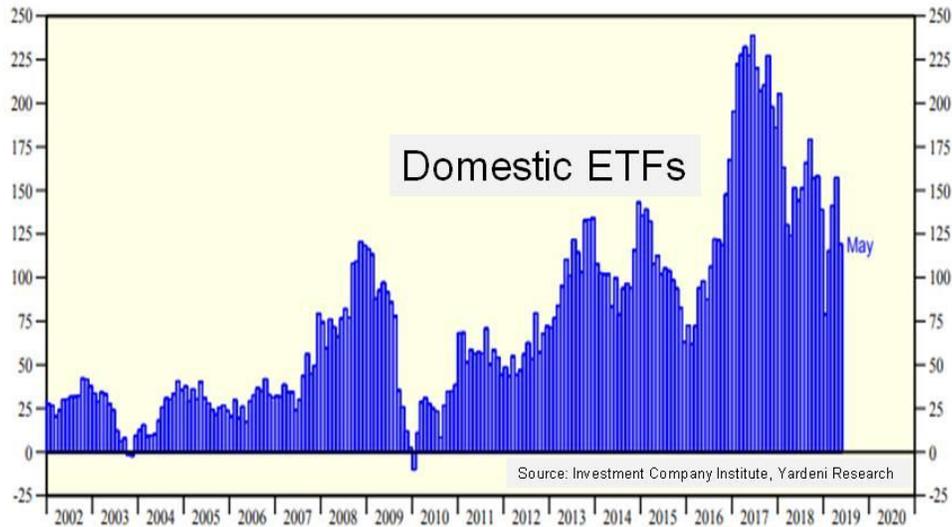
Money is on the move. Over the past dozen years, domestic mutual fund net flows are decidedly negative (except for two brief periods).

US Equity Mutual Fund Net Flows



Some of the funds moving out of domestic mutual funds are moving to domestic Exchange Traded Funds (ETFs).

US Equity ETFs Net Flows



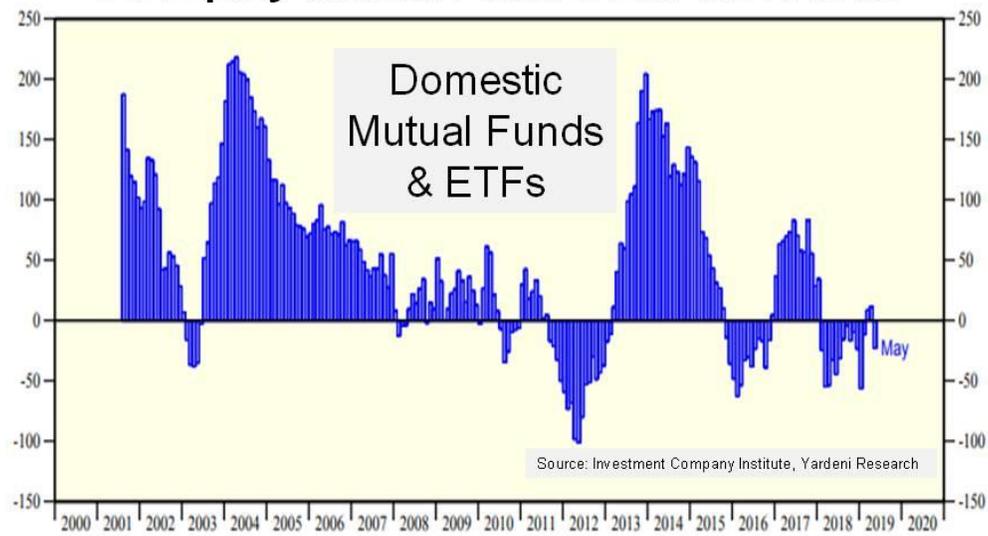
The flow of funds from domestic mutual funds to ETFs is most likely the result of investors taking advantage of the structural investment advantages of ETFs over mutual funds. It may also reflect dissatisfaction with actively managed strategies versus index performance.

ETFs often have lower expense ratios and may be traded throughout the day rather than once after the close. Possibly the single most important advantage of ETFs over mutual funds is ETFs do not create an annual tax liability for capital gains incurred as a result of buy/sell trades made within the fund. Mutual fund buyers are often faced with a capital gains tax bill at year-end that reflects trading activity within the fund. This is most painful when the capital gains tax liability occurs on trades made prior to making the investment in the fund – taxation without representation.

Fund flows from mutual funds to ETFs do not tell us much about the overall attractiveness of the market because it represents a security exchange rather than an asset class shift. It may only be an indicator of funds moving to where they are treated best (e.g., better tax treatment, lower expense ratios, etc.)

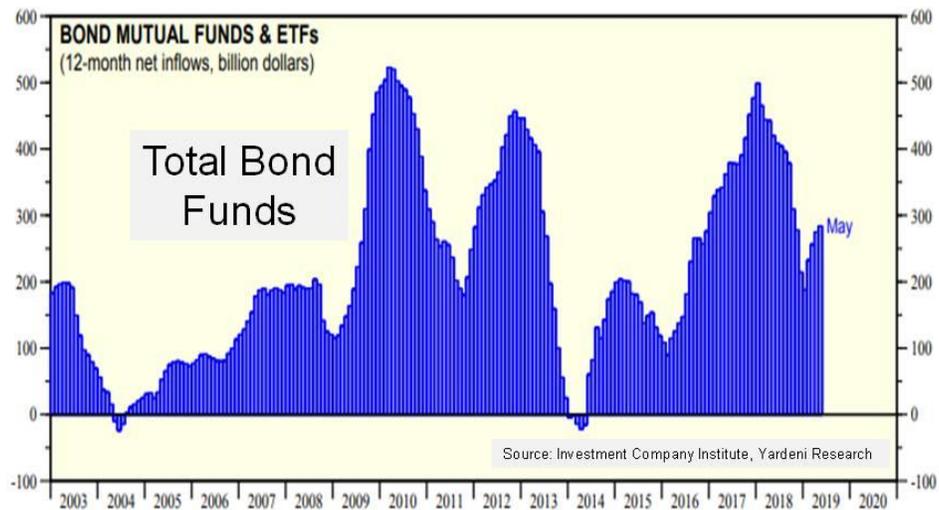
To obtain a better picture of investor sentiment and attitudes about the U.S. stock market, we look at the combined net flows into domestic mutual funds and ETFs. They are negative and have been so for roughly the past year and a half.

US Equity Mutual Fund & ETF Net Flows

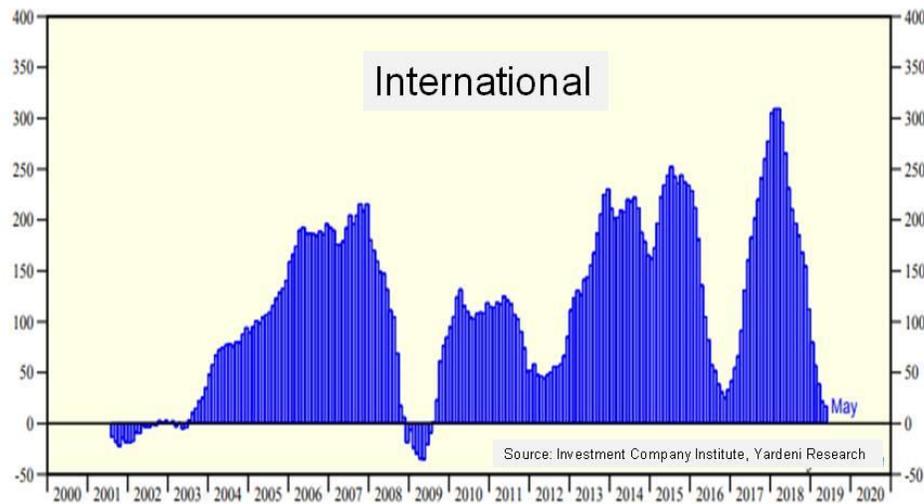


Where is the money going? Answer: mostly into bond and international stock funds.

Bond Mutual Funds and ETFs



Foreign Equity Mutual Funds and ETFs



The stock market is near all-time highs. The 10-year average annual return of the S&P 500 is roughly 14.5%. We see fund flows out of a strong bull market as a bullish signal. As evidenced by fund flows, investors are not overly enamored with domestic equities. Markets tend to fool most people most of the time. If we use this simple rule to interpret fund flows, domestic equities are likely to continue to outperform bonds and international stocks for the foreseeable future.

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.



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

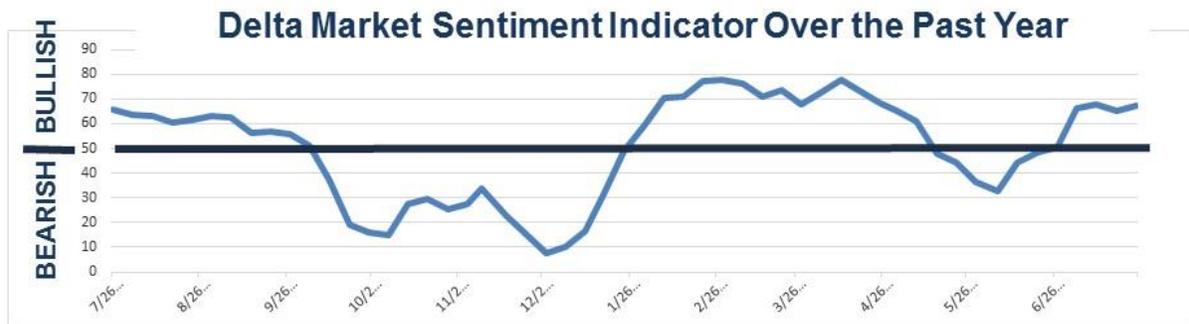
67.1

Our technical indicator increased
this week from 65.1 to 67.1

INDICATOR STATISTICS

| | |
|----------------------------|-------------|
| Consecutive Bullish Weeks: | 5 |
| Cycle Inception Date: | 6/27/2019 |
| Range: | 50.3 – 68.0 |
| Mean: | 63.4 |
| Bullish Weeks YTD: | 21 |
| Bearish Weeks YTD: | 9 |
| *S&P 500 | 3.1% |
| *DJIA | 2.2% |
| *NASDAQ | 4.3% |

* Percentage change during current cycle



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

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