

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.

August 9, 2019

Looking Through the Noise

Headline news is volatile. The China trade talks are on and off again. The Fed raises and now lowers rates. Since October 1, 2018, the S&P 500 has traded roughly flat (closing price 10/1/18 was 2,924.59) with three material periods of downside volatility including the fourth quarter of 2018, May 2019 and the first week of August.

Even more volatile than the S&P 500 has been the U.S. treasury market. The 10-year treasury rate declined by roughly 50% from October 1, 2018 through Wednesday of this week. 22% of the decline occurred in the first five trading days of August.

10-Year U.S. Treasury Rate



When headline news and price volatility is elevated, it becomes difficult to discern trends. The headline chatter and market volatility creates “noise” that obscures market

fundamentals. This is the time to turn off CNBC and other headline news outlets and let market metrics speak for themselves.

The S&P 500 and interest rates are moving fast. For the purposes of this newsletter, we take our bearings using fixed values. The calculations below are based on: S&P 500 2,900; 10-year U.S. Treasury Rate 1.7%; Consensus S&P 500 earnings estimates: 2019 \$165.38, 2020 184.08.

Valuation:

S&P 500 P/E on 2020 Earnings Estimate of \$184 is 15.8x. 25-year average P/E is 16.2x. Valuation is at a slight discount to historical average but consensus earnings have been trending lower.

S&P 500 Dividend Yield is 2%. 10-year treasury yield is 1.7%. Stocks look attractive relative to bonds, especially as year-over-year earnings growth from 2019 to 2020 is forecast at 11% while bonds held to term do not offer principal upside from face value.

S&P 500 Risk Premium is 4%. The risk premium is the expected excess return above the risk free rate to own stocks. We use the one-month treasury rate as a proxy for the risk free rate. The one-month treasury rate is roughly 2%. The forward excess return premium of 4% is attractive in a 1.7% 10-year treasury world.

Economic:

Americans are employed and the economy is growing. The July unemployment rate was 3.7%. Average hourly earnings are up 3.2% over the past 12 months. The July U.S. ISM Non-Manufacturing Index shows expansion at 53.7% -- the employment index was up at 56.2%. The July U.S. ISM Manufacturing Index is 51.2%. During non-recession periods, the stock market usually rebounds quickly from sell-offs.

Delta MSI:

The Delta MSI is a measure of stock market price trends and the technical strength of the market. In the past week, the MSI declined from 67.8% to 47.4%. Readings below 50% are considered bearish but we allow a 3% dead-band range around the 50% level to reduce whipsaw trading activity. Delta investment strategies tied to the MSI remain invested in equities this week.

Stay the Course for Now

Interest rates are low and the U.S. economy is expanding. These positives are somewhat offset by declining earnings projections and deteriorating market breadth. For now, we remain invested in equities.

Volatility in the bond market has exceeded volatility in the stock market this past week. Interest rates have declined sharply. Negative yields on foreign developed economy sovereign debt have become substantially more negative. The June 28th *Delta Insights* newsletter was titled “A Group of Elephants Sitting on Interest Rates.” Our expectations were for interest rates to go lower and that lower rates help lift stock valuations. Rates may not go much lower but at current levels, stocks are relatively attractive.

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.



“By the way, I’m taking off the first two weeks in August.”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

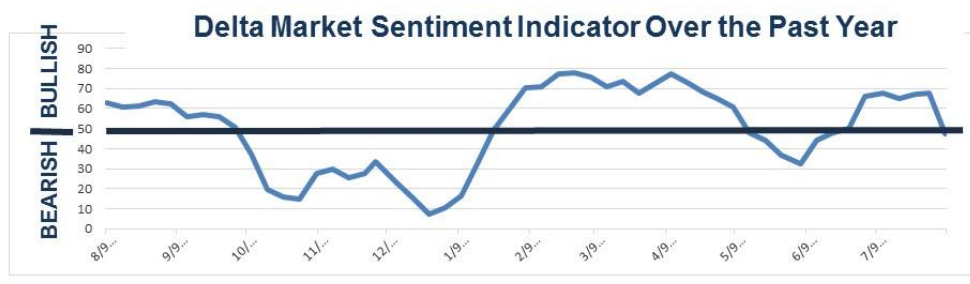
47.4

Our technical indicator decreased
this week from 67.8 to 47.4

INDICATOR STATISTICS

Consecutive Bullish Weeks:	7
Cycle Inception Date:	6/27/2019
Range:	47.4 – 67.8
Mean:	61.7
Bullish Weeks YTD:	23
Bearish Weeks YTD:	9
*S&P 500	0.4%
*DJIA	-0.9%
*NASDAQ	1.3%

* Percentage change during current cycle



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

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