

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 30, 2019

Where Has All the Innovation Gone?

Innovation and disruption often drive outsized investment gains. Start-up small capitalization companies have historically brought to market the latest in innovation. Better, faster, cheaper (and more convenient), if able to gain a foothold, can greatly change the status quo. For example, about 5% of all retail sales now go through Amazon, up from essentially zero 20 years ago. Correspondingly, Amazon's market capitalization is close to \$900 billion, up from essentially zero 20 years ago.

Successful innovation drives stock performance. Since the 21st Century started, the Russell 2000 small cap stock index is up roughly 200% versus the large-cap S&P 500 index advance of about 90%.

Small vs. Large Capitalization Stocks



Although small capitalization stocks have outperformed over the long-term, in the past year the Russell 2000 index has underperformed the S&P 500 by about 14%. This is

significant underperformance, especially as the smaller cap companies tend to be less impacted by tariffs than large cap companies.

Innovation may be shifting from startup companies to the mega-large technology companies via acquisitions. During the technology bubble period in the late 1990s, taking a small company public (IPO) was typically highly financially rewarding. Many small companies had an innovative idea but not much else in the way of sales or management team experience. Going public offered a high valuation liquidity event for the founders and an opportunity for investors to buy concentrated innovation.

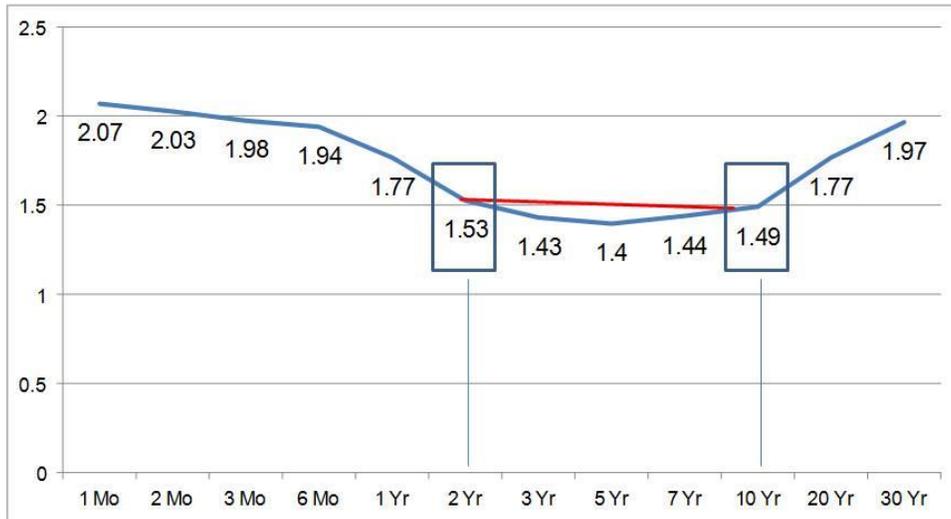
Today, many emerging companies are acquired rather than launched as a publically traded entity via the initial public offering process. With an acquisition, the founders gain the liquidity they seek, but without public stock restrictions. The acquiring firms have enormous cash balances and generally offer attractive buyout offers.

Google spent \$27 billion buying the following 10 companies: Motorola Mobility, Nest Labs, DoubleClick, Looker, YouTube, Waze, HTC-Pixel Smartphone, AdMob, ITA Softward and Deepmind. Historically, Google has acquired as many as one company per week. Apple has acquired roughly 25 companies in the past six months according to CEO Tim Cook, but only a small number of these acquisitions were publically disclosed. Apple buys a new company every two to three weeks on average. Facebook has acquired 76 companies in its short history.

Research and development can also be a source of innovation. Five mega-capitalization technology companies: Amazon, Apple, Facebook, Google and Microsoft account for 30 percent of all research and development spending of the S&P 500 today. Given this level of R&D spending and their multi-billion dollar acquisition programs, large-cap technology may be where innovation is most often found today.

The Delta MSI remains Bearish this week. Additionally, the 2-year treasury rate closed at a higher level than the 10-year rate. This is how Delta defines a yield curve inversion. The inverted yield curve suggests the U.S. economy may be entering a recession in about a year.

U.S. Treasury Rates As of 8/27/2019



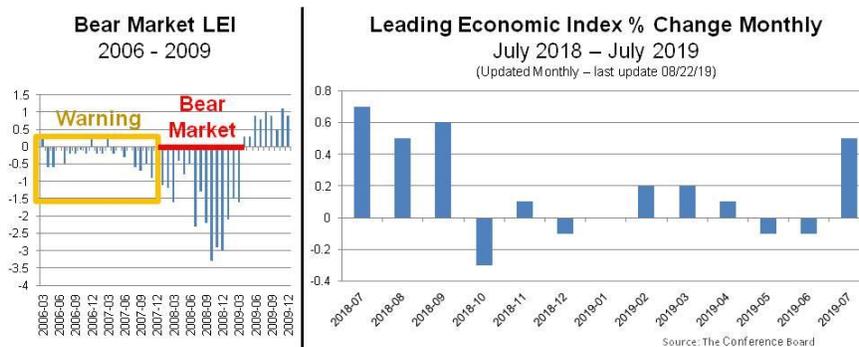
In the coming weeks and months, we will be looking for confirming signals. As of last week, the Leading Economic Index (LEI) exceeded expectations and, for now, is offering a conflicting signal.

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

BEARISH

THIS WEEK'S NUMBER IS

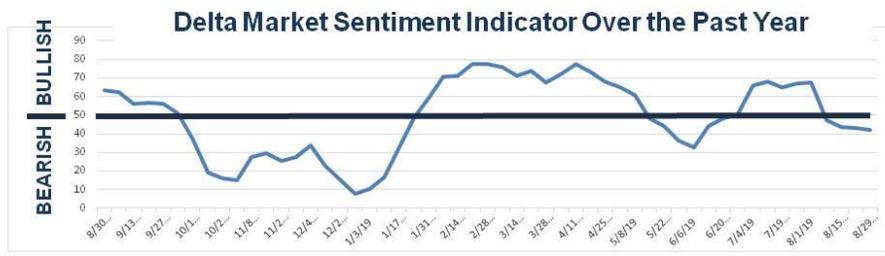
42.0

Our technical indicator decreased
this week from 43.4 to 42.0

INDICATOR STATISTICS

Consecutive Bearish Weeks:	3
Cycle Inception Date:	8/15/2019
Range:	42.0 - 43.9
Mean:	43.1
Bullish Weeks YTD:	23
Bearish Weeks YTD:	12
*S&P 500	2.7%
*DJIA	3.1%
*NASDAQ	2.7%

*Percentage change during current cycle



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

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