

*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.*

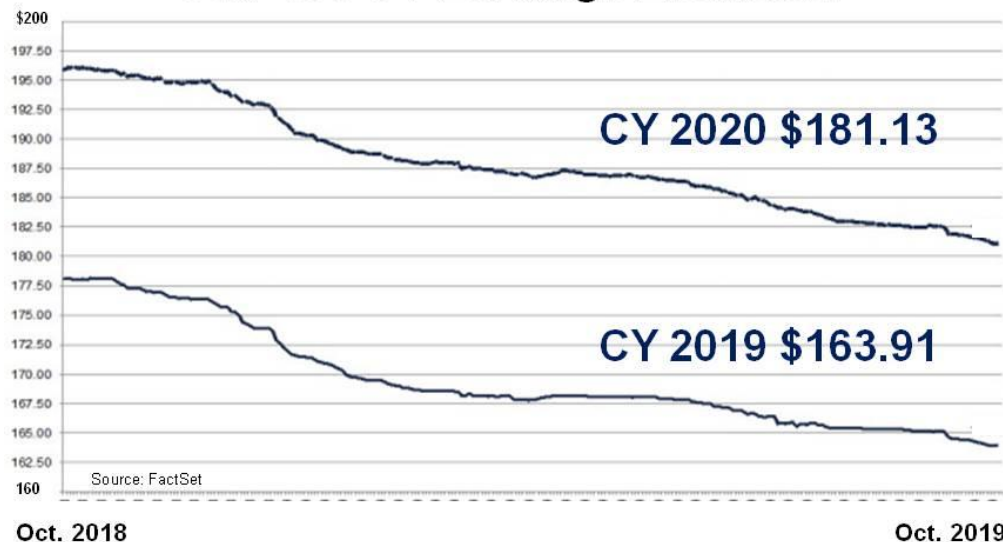
*Please contact Delta at [info@deltaim.com](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

October 18, 2019

## Have Earnings Found a Floor?

A year ago, the consensus analyst estimate for S&P 500 earnings for this year was about \$178. Today, it is about \$164. A year ago, the consensus analyst estimate for S&P 500 earnings in 2020 was about \$196. Today, it is about \$181.

### S&P 500 CY Earnings Estimates



Earnings estimates have shown a persistent downward trend. Global growth is slowing and profit margins are tightening. If there is no further change to the 2019 and 2020 estimates, earnings growth from \$164 this year to \$181 next year is roughly 10%. The S&P 500 P/E on 2020 earnings is 16.6x, slightly higher than the 25-year average of 16.2x.

In a low interest rate environment (10-year treasury rate at about 1.75%), a slightly elevated P/E makes sense. The Rule of 20 says the market is fairly valued when the P/E plus the inflation rate equal 20. Inflation added to the 2020 P/E equals about 18.2.

The difficulty with the above calculation is it is not yet 2020 and the earnings number is a projection rather than a reported fact. With a persistent downward trend in the earnings outlook, a bullish forecast requires earnings begin to stabilize and rise.

Through market open yesterday, 78 companies reported earnings. 86 percent met or beat earnings estimates. Every day this week through Thursday, the stock market appreciated. Much of the gain was concentrated in industries that had reported, especially the major banks. We saw positive earnings reports from Citigroup, JPMorgan Chase, Wells Fargo, Bank of America, US Bancorp, BNY Mellon and numerous other financial institutions. Over forty percent of the earnings reports so far were from financial institutions.

Of the top five holdings in the Financial Select Sector SPDR ETF (XLF), four are JPMorgan Chase, Bank of America, Wells Fargo and Citigroup. The fifth is Berkshire Hathaway that owns sizable stock positions in Bank of America, JPMorgan Chase and Wells Fargo. XLF from last Friday close through Thursday close is up 1.5% versus 0.9% for the S&P 500.

Outside of the financial industry, United Airlines, CSX, United Rentals, Honeywell and Textron reported better than expected earnings and the stocks appreciated on the news. These companies offer insight into underlying economic activity across many sectors of the U.S. economy.

The early read on earnings reports is favorable. The majority of reporting companies came in ahead of expectations. Stock prices have responded favorably to better-than-expected earnings. If this is the case for the next several weeks, it bodes well for the market.

### **Give Us a Call Today**

We have unique and sophisticated investment methods that seek to capture the stock market's gains while minimizing drawdowns in bear markets. If you would like to learn more about how we manage money, 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).



*"Viewers should be advised: the following debate on public funding for the arts contains violence and adult language."*

## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

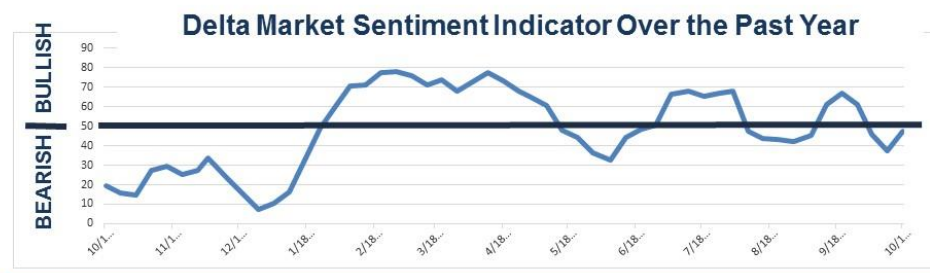
**47.4**

Our technical indicator increased this week from 37.5 to 47.4

### INDICATOR STATISTICS

Consecutive Bearish Weeks:	3
Cycle Inception Date:	10/4/2019
Range:	37.5 – 47.4
Mean:	43.6
Bullish Weeks YTD:	26
Bearish Weeks YTD:	18
*S&P 500	1.8%
*DJIA	1.9%
*NASDAQ	2.3%

\* Percentage change during current cycle



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

Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisors Act of 1940, we advise all readers to recognize that they should not assume that recommendations made in the future will be profitable or will equal the performance of past recommendations. This publication is not a solicitation to buy or offer to sell any of the securities listed or reviewed herein. The contents of this letter have been compiled from original and published sources believed to be reliable, but are not guaranteed as to accuracy or completeness. Nicholas Atkeson and Andrew Houghton are also principals of Delta Investment Management, a registered investment advisor. Clients of Delta Investment Management and individuals associated with Delta Wealth Adviser may have positions in and may from time to time make purchases or sales of securities mentioned herein.

THIS NEWSLETTER IS PROTECTED BY COPYRIGHT LAW. UNAUTHORIZED DISTRIBUTION AND/OR REPRODUCTION BY PHOTOCOPY OR ANY OTHER MEANS IS STRICTLY PROHIBITED AND PUNISHABLE BY A FINE OF UP TO \$25,000.