

*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.*

November 29, 2019

TD Ameritrade Checkmate #

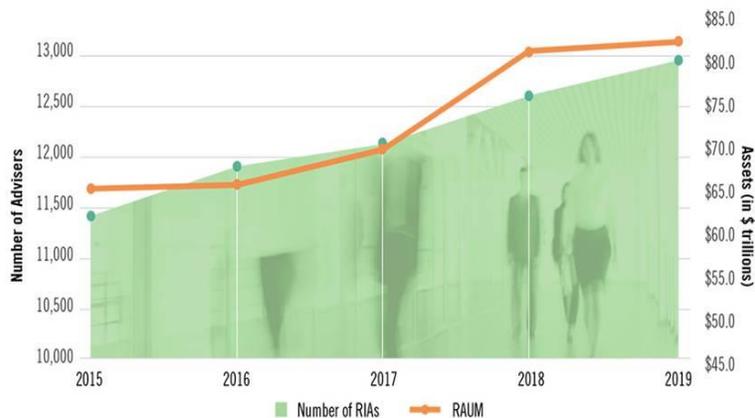
Chess boards have 8 squares on the x-axis indicated with A-H and 8 squares on the y-axis indicated with 1-8. Moves are denoted by the piece moved and the end position. For example, the King is “K” and a move by the King from B2 to B3 is indicated by Kb3.

On the chess board of discount brokerage, Schwab just made two swift moves to checkmate TD Ameritrade and eliminate a powerful competitor.

TD Ameritrade (AMTD) went public in 1997. Through a series of acquisitions (including TradeCast, National Discount Brokers, Datek, Mydiscountbroker.com, Bidwell, BrokerageAmerica, JB Oxford, TD Waterhouse US brokerage, Fiserv, Thinkorswim, and Scottrade) and organic growth focused on attracting registered investment advisor (RIA) firms like Delta, TD accumulated roughly \$1.3 trillion worth of brokerage assets.

There are roughly 13 thousand RIA firms in the US who manage about \$83.7 trillion. This segment of the financial services industry is showing steady growth. In large part because of TD’s focus on the RIA market, TD had substantially faster revenue growth than Schwab.

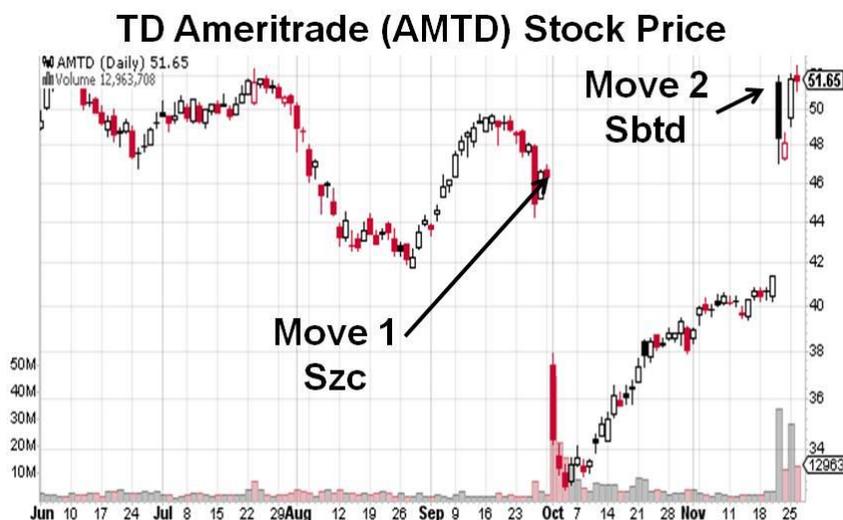
RIAs: Number and Assets Under Management



Charles Schwab is a larger and more diversified financial services firm than TD. Of TD's \$5.4 billion in revenues in 2018, roughly \$1 billion (~20%) was created from trade commissions on stocks and exchange traded funds (ETFs). Of Schwab's \$10 billion in revenues in 2018, only 8% was tied to commissions. This proved to be a critical point of difference between the two firms.

In the past two months, Charles Schwab maneuvered TD into a position where it could be acquired at an attractive price. After years of becoming increasingly competitive with registered investment firms, Schwab engineered a way to capture the gains TD Ameritrade had made in this growing market segment in one fell swoop.

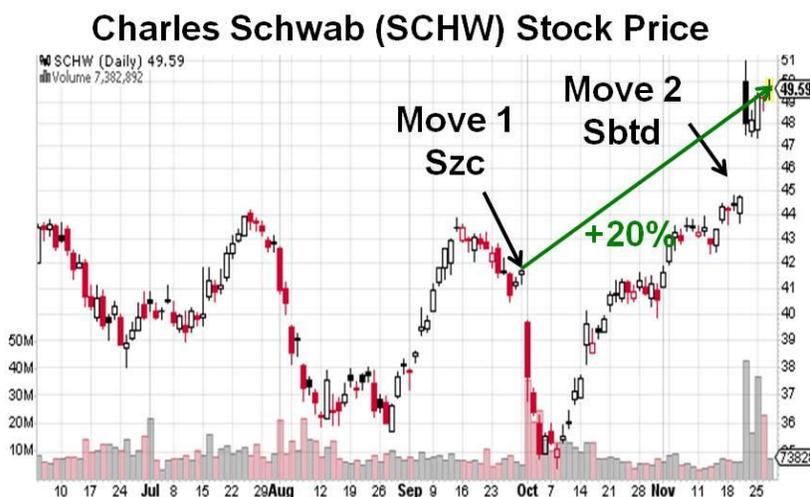
Move 1: Szc (Schwab zero commissions) -- On October 1, 2019, Schwab announces zero commissions on stock and ETF trades. In reaction to this news, the highly exposed TD Ameritrade stock (AMTD) drops nearly 30% from about \$47 per share to \$33.



TD Ameritrade is faced with a difficult decision: match Schwab's zero commission policy and lose \$1 billion in revenue or stay the course and have assets migrate to Schwab over time. On October 3, TD Ameritrade matches Schwab's zero commission fee policy.

Move 2: SbtD (Schwab buys TD Ameritrade). On November 21, 2019, Schwab announces its plan to acquire TD Ameritrade for \$26 billion in stock or about \$52 per share after the stock had become heavily discounted from the zero commission announcement. TD Ameritrade was removed from the board at a price that is about 10% below AMTD's 12-month high and offered no premium from July 2019 trading levels. Game over #. Even Magnus Carlsen would be proud.

The chart below shows the same sequence of moves overlaid on the Charles Schwab (SCHW) stock chart. In the week after the October 1 zero commission fee change, SCHW fell half as much as AMTD. From October 1 until now, the stock has appreciated by about 20%.



Delta's Perspective

Delta has relationships with both TD Ameritrade and Schwab. Historically, TD Ameritrade has offered better service, pricing and technology to RIAs. Because of the advantages that TD has offered, we predominately placed our business with TD.

The acquisition is expected to take a year to close. The integration of the two companies will take an additional two to three years. We will be watching closely to see if Schwab will retain TD's superior technology platform, especially in the area of trading. We have time to evaluate the situation as it develops.

Over the past couple of years, we have invested significantly to make sure Delta's internal management and control systems are top-tier and complete. No matter what happens with the merger, Delta and Delta's clients and partners are in a great position.

We hope you had a wonderful Thanksgiving.

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 or email us at info@deltaim.com.



"Remember when you could only lose a chess game to a supercomputer."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

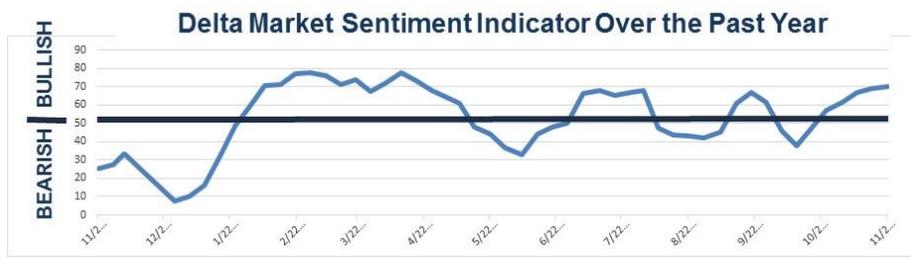
69.9

Our technical indicator remained at
69.9 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	6
Cycle Inception Date:	10/25/2019
Range:	57.4 – 69.9
Mean:	65.8
Bullish Weeks YTD:	32
Bearish Weeks YTD:	18
*S&P 500	4.6%
*DJIA	4.8%
*NASDAQ	6.2%

* Percentage change during current cycle



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

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