

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.

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December 20, 2019

What Could Go Wrong?

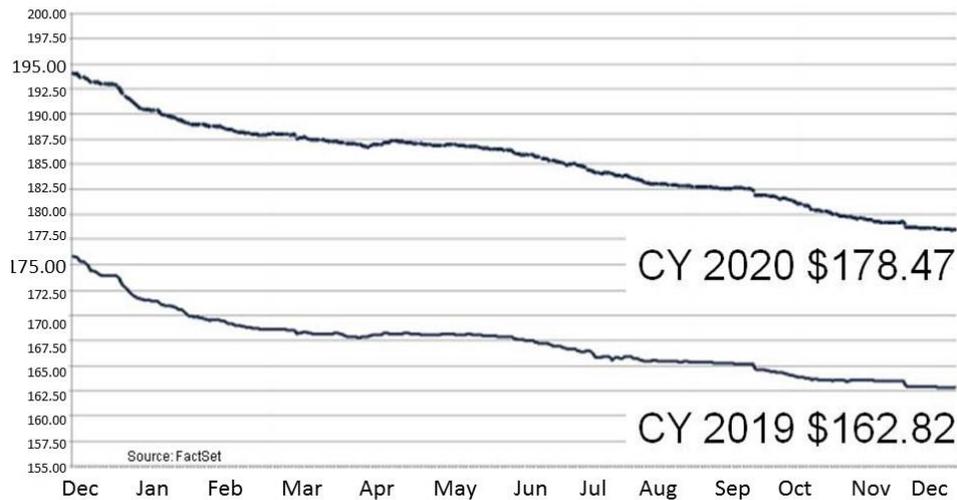
The S&P 500 is at an all-time high and approaching a year-to-date gain of 30%. Two of the largest sources of anxiety for investors have been recently addressed. The Federal Reserve is indicating it is not likely to change rates again during 2020 and China and the U.S. have verbally committed to the Phase One trade deal – no rate hikes and no new tariffs for now. Stock prices have rewarded these developments with roughly 7% appreciation in the past three months.

Homebuilders are optimistic about sales over the next six months and the jobs report showed 266,000 new jobs in November (way ahead of the 187,000 expectation) and a decline in the unemployment rate to 3.5%, the lowest jobless rate since 1969. Healthy job and housing markets strongly suggest recession is a remote possibility in the near term.

Delta's 2020 S&P 500 forecast is bullish with a 9% gain by this time next year (*Delta Insights*, November 22, 2019). But the outlook is not entirely free of worry. What could go wrong?

Two metrics we are watching closely are corporate earnings and the Leading Economic Index (LEI). Below is a chart showing how consensus earnings estimates for 2019 and 2020 have been declining for the past year.

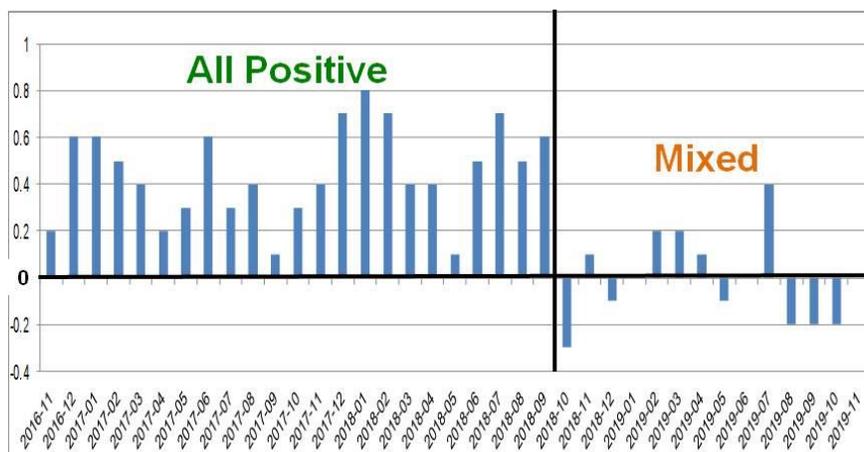
S&P 500 Earnings Estimates 2019 & 2020



Some of the estimate decline may have been caused by trade war uncertainty. If this is the case, we may soon see earnings revisions move upward in the wake of the Phase One deal. Earnings growth in 2020 is an essential input to our positive 2020 stock market outlook.

The second concern we have is the LEI has been mixed (positive and negative) since last October and is not improving in conjunction with recent stock market appreciation. The November LEI was reported this week at 0.0%.

LEI % Change Monthly 11/2016 – 11/2019



When the six-month moving average of the month/month percent change in the LEI turns negative, we see this as a recession signal. On a preliminary basis, the six-month LEI moving average has turned negative. We say "preliminary" as the LEI report is backwardly revised for two months. It is quite possible we see upward revisions in the

next report that negate the current negative reading. A consistently negative LEI would be cause for concern.

The weakness in the LEI is predominately in manufacturing. Manufacturing is the sector most impacted by trade uncertainty. It is possible the positive advance in the China trade discussions allows the manufacturing sector to rebound. The LEI reported strength in residential construction, financial markets and consumer expectations, all of which are significant positive drivers of GDP growth.

Patience is a virtue in investing. Like the uncertain earnings outlook, we will have to wait and see how the LEI changes over the next couple of months before we decide if our worries should become actionable. We end the year invested in equities and hopeful that the surprises we see in the New Year are positive rather than negative.

Happy Holidays

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.



"This one's from you know who, so make a fuss and thank him."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

73.5

Our technical indicator increased
from 68.2 to 73.5 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	9
Cycle Inception Date:	10/25/2019
Range:	57.4 – 73.5
Mean:	67.3
Bullish Weeks YTD:	35
Bearish Weeks YTD:	16
*S&P 500	6.4%
*DJIA	5.8%
*NASDAQ	8.4%

* Percentage change during current cycle



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

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