

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.

March 13, 2020

Bear Shock

The stock market sell-off from the high on February 19th (down 20%) is the fastest on record, 15 trading days.

The next three fastest bear markets were:

- September/October 1929 = 42 days
- August to October 1987 = 55 days
- July to October 1990 = 87 days

Information flows and trading systems move much faster today than in the past.

Another cause for the speed of the sell-off is the economic outlook is being shocked by multiple factors (somewhat interrelated) simultaneously.

1. **COVID-19 earnings and liquidity impact.** Consensus earnings expectation for 2020 is currently \$174. Goldman Sachs is projecting \$157. These estimates are in a state of flux. Some businesses may have significant liquidity concerns. For example, Boeing is drawing down their entire line of credit (\$13.825 billion) to manage capital requirements.
2. **Global Oil Price War.** In the face of weakening demand, Saudi Arabia has increased output and lowered prices to protect market share. Although the energy sector represents only about 4% of the S&P 500, earnings in the sector are projected to be down by about 50% which reduces overall S&P 500 earnings by about \$3. Additionally, there is significantly increased risk of business failure in the sector which hurts both equity and debt holders.
3. **Collapse in interest rates.** The 10-year treasury rate has fallen from about 1.9% to roughly 0.85% year-to-date. On Monday, the 10-year yield fell to 0.39%. The previous all-time low in the 10-year rate was 1.36%. Financial companies represent roughly 20% of the S&P 500 earnings. The loss of income from asset

yields and net interest margins is expected to reduce S&P 500 earnings by another \$3. Additionally, bad debt expense could jump materially higher.

4. **Forced selling.** Because of the speed of the sell-off, many individuals and institutions were caught out-of-position, some with too much leverage. We have seen margin calls. We are seeing levered ETF funds either closing or removing all leverage. We are seeing rules-based momentum traders sell at any price. Given issues 1-3 above, there is an absence of buyers. The equity market has liquidity issues which exacerbate price declines.

There are signs that from a stock market perspective, we should be buyers rather than sellers.

The Delta Market Sentiment Indicator (MSI) is 10.3. The MSI has declined below 10 five times in the past 15 years. Historically, the stock market has shown strong performance (double digit positive returns) over the next twelve months post a sub-10% reading.

The CBOE Volatility Index (VIX) reached 77 Thursday. The all-time high reading was 89 in 2008. For the most part, all other high readings have been roughly 50 or below.

Volatility Index (VIX)

2000 - 2020



Source: stockcharts.com

Fundamentally, stocks are reaching attractive valuations. For example, Google is trading at about a 19 P/E and Exxon and Wells Fargo are trading below tangible book value.

Goldman Sachs, one of the more bearish firms on Wall Street currently, has a mid-year S&P 500 price target of 2,400. We are almost there. Their year-end S&P 500 price target is 3,200. If Goldman is correct, S&P 500 returns for calendar year 2020 would be roughly flat and from current market levels up by about 28%.

During extraordinary market periods, it is important to keep emotions out of the decision making process and be a methodical investor, mindful of long-term goals and overall risk tolerance.

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.



MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

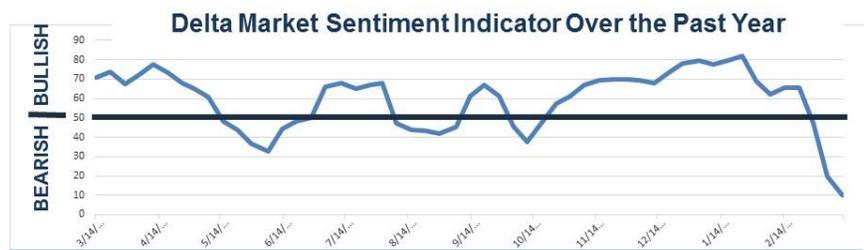
10.3

Our technical indicator decreased from 19.6 to 10.3 this week

INDICATOR STATISTICS

Consecutive Bearish Weeks:	3
Cycle Inception Date:	2/27/2020
Range:	10.3 – 47.5
Mean:	25.8
Bullish Weeks YTD:	3
Bearish Weeks YTD:	0
*S&P 500	-13.9%
*DJIA	-15.1%
*NASDAQ	-13.2%

* Percentage change during current cycle



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

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