

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.

January 3, 2020

Looking into the New Year

A New Year and new decade is underway. On the first trading day of last year, the S&P 500 opened at 2,476.96 which was 15x the forward twelve-month earnings. 2020 began with the S&P 500 at 3,244.67 and 18.2x the expected forward twelve-month earnings. From a valuation perspective, one might conclude the S&P 500 is less attractive today than it was twelve months ago. In the next several weeks, we will see important data points that should provide more clarity on the attractiveness of stocks.

Important Data Points Early 2020

- January 3: ISM Manufacturing Index – expectation of continued expansion > 50
- January 8: Fourth quarter earnings season starts – expectation of generally better than expected results with positive outlook – reported over several weeks
- January 10: Nonfarm Payrolls/Unemployment Report – expectation of continued steady advances in employment and an unemployment rate of about 3.5%
- January 15: Expected signing of the Phase One Trade Agreement with China
- January 16: Retail sales report for December – expectation of a strong report
- January 17: Housing starts for December – expectation of a positive outlook for 2020 as housing shortages continue
- January 23: Leading Economic Index (LEI) – would like to see a positive change month-over-month after four months of lackluster/negative results.

The S&P 500 consensus earnings estimate for 2020 is \$178, a 10% advance from the 2019 earnings of \$162. The 2021 consensus earnings estimate is \$197 which represents an additional 11% advance above the 2020 estimate. What is most encouraging about earnings estimates is after being revised lower for the past twelve months, we are beginning to see upward revisions.

In the next several weeks, we will see if the economy remains on a steady growth path and if earnings projections hold up. Although the stock market is near all-time highs, \$61 billion was withdrawn from U.S. mutual funds and ETFs in 2019. This is the largest

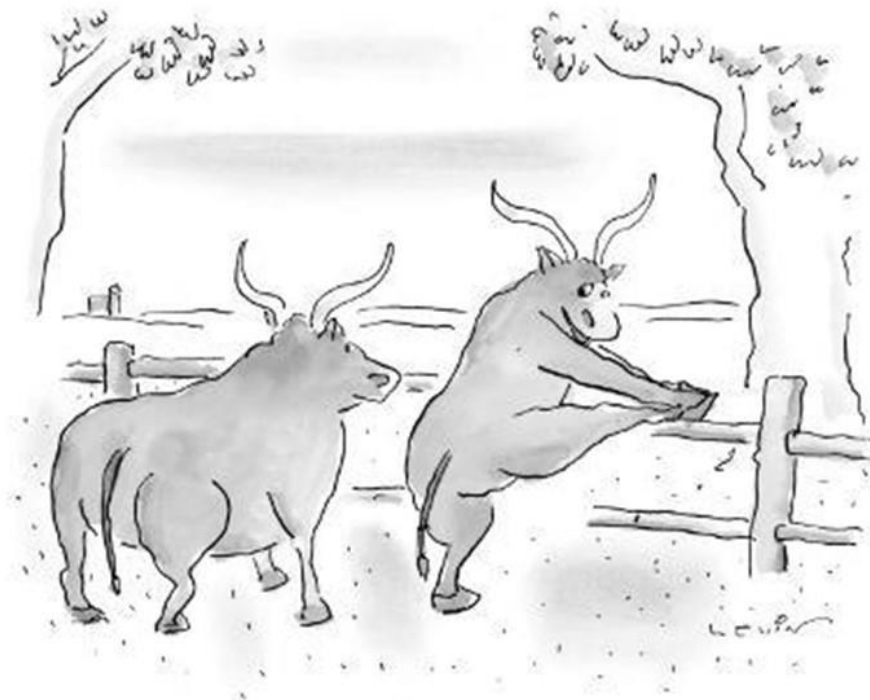
negative annual fund flow amount this century by a factor of 2x. Fund flows into taxable bonds were a positive \$251 billion.

Significant fund flows away from equities and into fixed income suggests the crowd may be more interested in a return of principal rather than a return on principal – a generally pessimistic outlook. But if we were to take the current earnings yield on Baa rated bonds at 3.9%, it implies an S&P 500 multiple of 25.8x. Contrarian investors have reason to be optimistic.

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.

Happy and Healthy New Year!!!



"I'm thinking of doing Pamplona this year."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

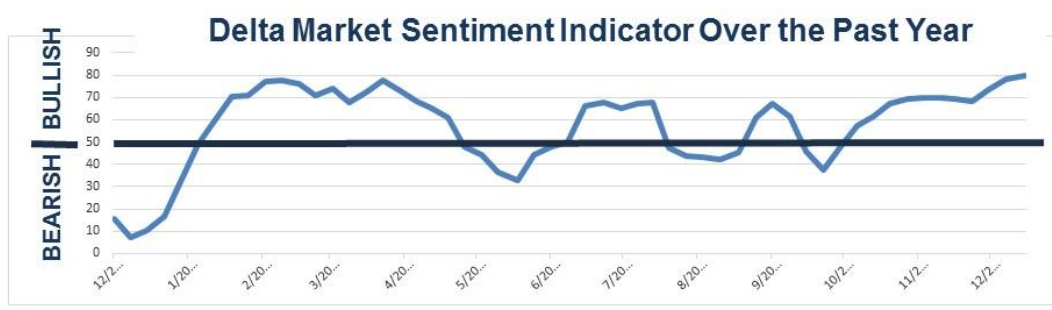
79.8

Our technical indicator increased from 78.2 to 79.8 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	11
Cycle Inception Date:	10/25/2019
Range:	57.4 – 79.8
Mean:	69.5
Bullish Weeks YTD:	1
Bearish Weeks YTD:	0
*S&P 500	7.4%
*DJIA	6.6%
*NASDAQ	9.8%

* Percentage change during current cycle



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

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