

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 29, 2021

Caught Off Base

Much of the trading in the modern stock market is done by hedge funds and computers. It is trading activity that sets prices in the short-term. There are times when the largest and most active traders are caught off base.

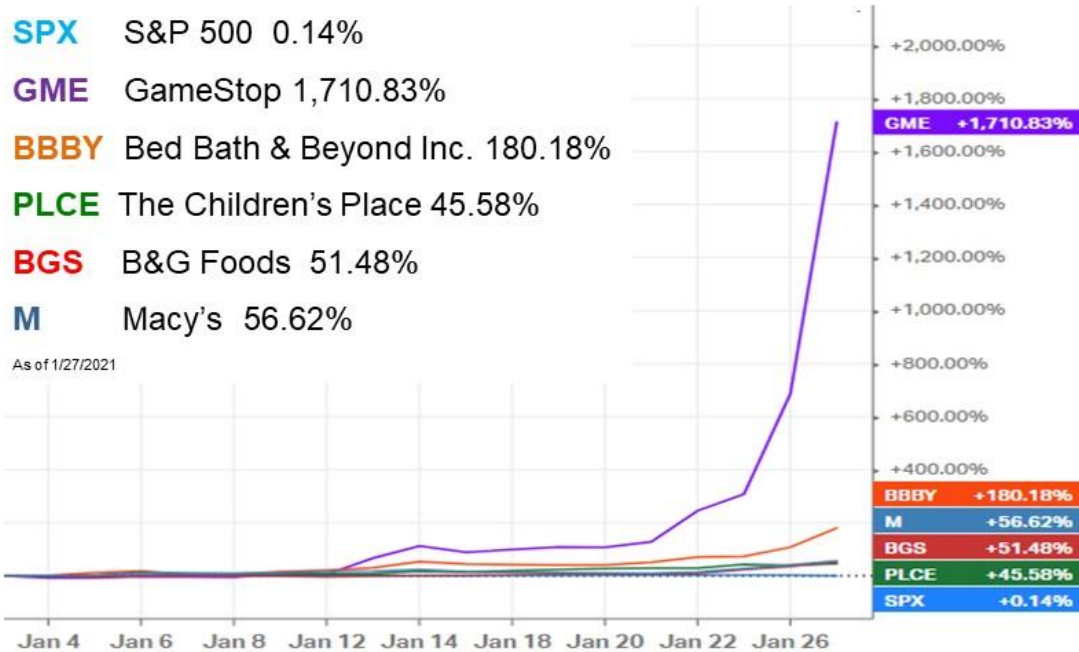
At the end of January 2018, volatility spiked. In about a two-week span, the CBOE Volatility Index (VIX) jumped from about 10 to 50. Hedge funds short volatility were squeezed. Margin calls were issued. Forced selling helped drive the S&P 500 down by over 10%.

It appears several, large hedge funds have been caught off base again. This is evident by the radical appreciation of the most heavily shorted stocks in the market.

Most retail investors do not engage in the short-selling of stocks (borrowing shares and selling them with the expectation they will depreciate and be bought back for a gain – if the stocks appreciate the buy price may be higher than the sell price). Hedge funds are the largest short-sellers in the stock market.

Below is a chart of five of the ten most heavily shorted stocks as a percentage of float (outstanding shares) in the market: GameStop (GME), Bed Bath & Beyond (BBBY) The Children's Place (PLCE), G&G Foods (BGS) and Macy's (M). Through the close on Wednesday, they were up year-to-date in a range of 45% to 1,700% while the S&P 500 was essentially flat (+0.14%).

Y-T-D Performance



GameStop (GME) has been highlighted by the media for its remarkable appreciation (+1,710%). But, the short-squeeze broadened out to encompass most of the very heavily shorted stocks.

Many of the hedge funds adversely impacted by the rapid appreciation of their short positions manage billions of dollars. They are receiving margin calls. Some of the hedge funds have to liquidate their long stock positions, no matter the fundamentals, to cover the margin calls and/or to buy back their short position.

Forced selling by institutional investors can create opportunities for fundamentally motivated investors. Hedge fund dislocations can be dramatic, but are usually short in duration. If there are stocks that you have wanted to own but were hesitant to buy because of their high price, stay vigilant as you may see the entry price you have been hoping for. Hedge funds tend to crowd into many of the same stocks which exacerbates their price impact when buying and selling.

Over time, the stock market is moving at an accelerating pace. The pace of trades is measured in milliseconds. The pace of news flow is close to instantaneous. This increasingly high-speed stock market environment may create impressive dislocations in the short-term, but does not detract from stocks reacting to fundamentals over the long-term. Stay focused on your long-term investment objectives and use short-term price aberrations to your advantage when possible.

Let Us Help You Position Your Portfolio – 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.



“Save my spot?”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

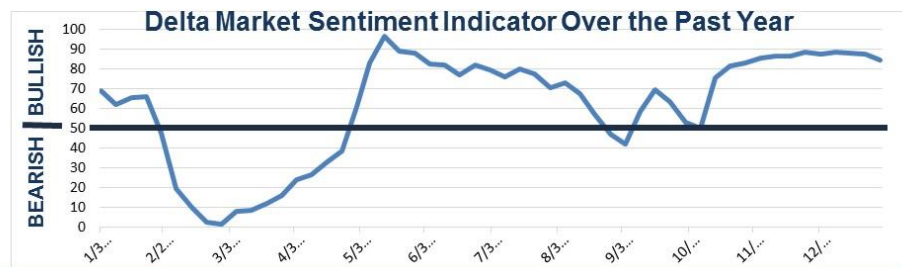
84.3

Our technical indicator decreased from 87.3 to 84.3 this week

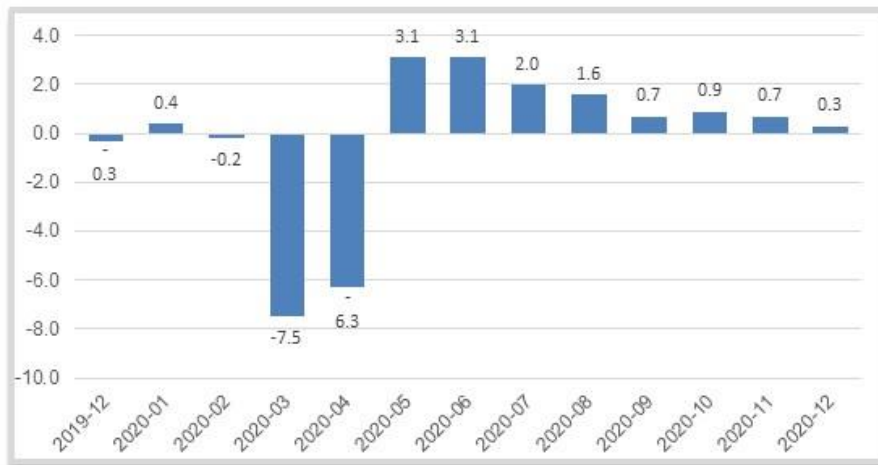
INDICATOR STATISTICS

Consecutive Bullish Weeks:	17
Cycle Inception Date:	10/8/2020
Range:	58.6 – 88.6
Mean:	77.5
Bullish Weeks YTD:	4
Bearish Weeks YTD:	0
*S&P 500	10.5%
*DJIA	8.3%
*NASDAQ	17.4%

* Percentage change during current cycle



Leading Economic Index % Change Monthly December 2019 – December 2020



Source: The Conference Board, updated monthly – last update 01/28/2021

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.