

*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](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

October 29, 2021

### **Fear: Friend or Foe? Trick or Treat?**

Fear and skepticism can be friends of the market. These emotions keep complacency in check. They raise the discount rate on future earnings which can increase expected returns.

Since the market low of March 2009, equity investors have faced a litany of scary events. We have experienced pandemic, trade wars, infinity quantitative easing, inflation worries, slow growth, volatile oil prices, Brexit, Fukushima, etc. This Halloween, investor anxiety is elevated by labor shortages, port backlogs, persistent inflation and uncertainty with China's "shared prosperity" policies on economic growth.

With the headwinds of a steady supply of hair-raising challenges to the investment outlook, the S&P 500 with dividends reinvested returned an average of 17% per year from the 2009 low. Even if you had invested at the pre-financial crisis market peak in 2007, your annualized return with dividend reinvestment would have been 10.3%.

When the world is scary and the stock market keeps appreciating, this disconnect may cause investors to believe the market is overvalued. The scary aspect of investing may be so powerful as to blind investors to developments that are not so scary.

For example, since 2009, S&P 500 earnings have appreciated by 245%. The 10-year U.S. treasury rate has declined by 60%. Technology proliferation and the shift on-line has doubled corporate profit margins. The percent of the economy that is driven by "new-economy" information technology type activities is now more than half. These are some of the developments driving prosperity and consumption.

The economy has significant sources of stability today. For example:

- The bank loan-to-deposit ratio is 53.9%, the lowest on record
- 60% of new high-yield corporate debt issuance is earmarked for refinancing more expensive debt

- The average consumer FICO score is 716, the highest on record
- The household savings rate is 9.4% which sets the stage for a potential consumer rebound (the 30-year average prior to Covid was 6.4%)

We have consistently heard during earnings season demand is robust. Demand and sales are the single most important component to economic success. Procter & Gamble is seeing solid unit volume growth across all brands. Otis Elevator increased its growth forecasts in all regions for all services (new elevators, maintenance and modernizations – Americas, Asia and EMEA). Motor gasoline consumption in the U.S. has fully recovered back to pre-pandemic levels while U.S. office occupancy has only improved to 36.9% (below 32% ex-Texas). Goods consumption is now 14% above the pre-pandemic level.

When you see your friends and neighbors slowing their consumption activities, that is the time to worry about stock valuations. As long as jobs, wages, money, markets, and housing are healthy and appreciating, “the only thing we have to fear is fear itself.” Franklin Roosevelt spoke these words on March 4, 1933. Despite the Depression, World War 2 and a variety of other hardships, 1933 marked the low in stock market valuation. The S&P 500 has annualized 11.6% returns (including dividend reinvestment) from March 1933.

### **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](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com).



## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

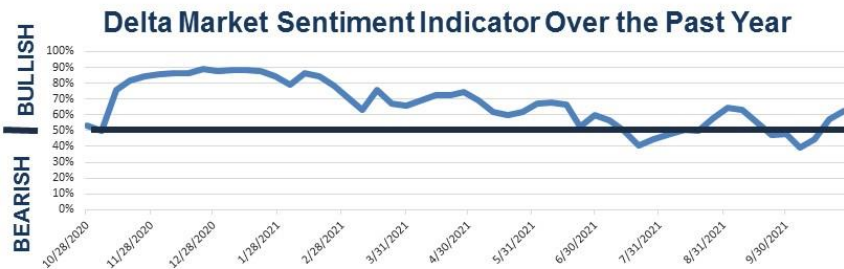
**62.4**

Our technical indicator increased  
from 57.5 to 62.4 this week

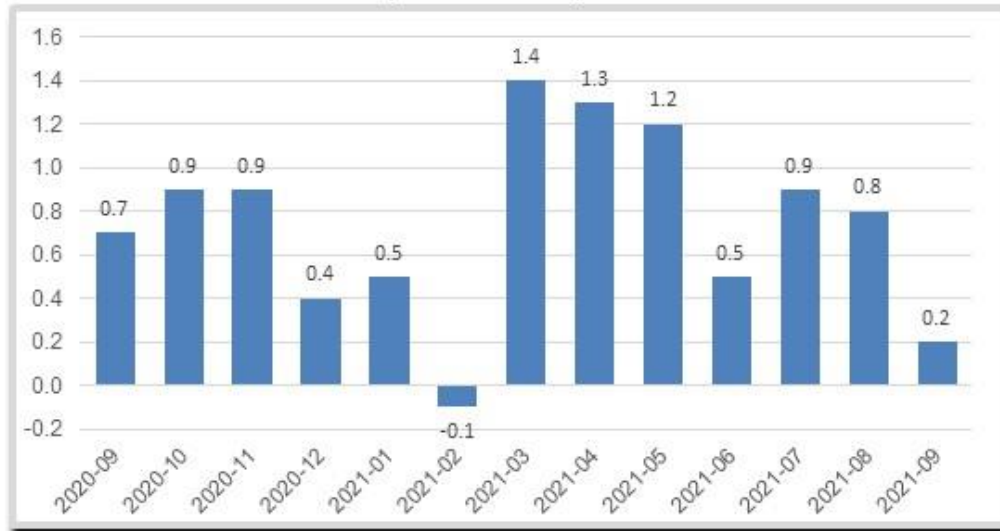
### INDICATOR STATISTICS

Consecutive Bullish Weeks:	2
Cycle Inception Date:	10/21/2021
Range:	57.5 - 62.4
Mean:	59.9
Bullish Weeks YTD:	38
Bearish Weeks YTD:	5
*S&P 500	1.2%
*DJIA	0.7%
*NASDAQ	2.0%

\* Percentage change during current cycle



## Leading Economic Index % Change Monthly Sep 2020 – Sep 2021



Source: The Conference Board – last update 10/21/2021

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