

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.

November 19, 2021

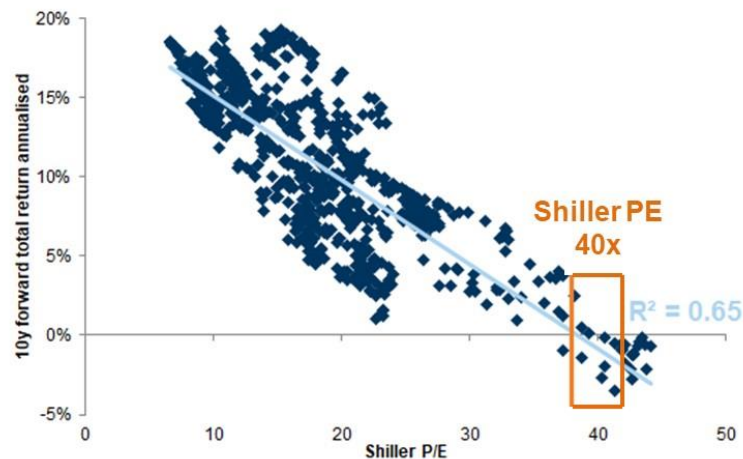
Ride the Ups, Avoid the Downs

Yale economist, Robert Shiller, won a Nobel Prize in 2013 for essentially saying the returns from stocks are better if you buy them when they are inexpensive versus expensive. Buy low, sell high proved to be a thesis worthy of a Nobel Prize when presented with sufficient academic support.

Robert Shiller is also the inventor/keeper of the Shiller P/E. The Shiller Price/Earnings ratio is the average of 10 years of earnings divided by price. By using an average of 10 years of earnings, the hope is to remove cyclicity (earnings peaks and troughs) from the P/E measurement. The Shiller P/E is also known as the CAPE ratio for Cyclically Adjusted P/E ratio.

The Shiller P/E today is roughly 40. The 25-year average is 27.86. By this measure, the stock market looks overvalued. By this measure, the forward 10-year expected returns look very low (near zero with a negative bias).

Valuation versus Forward Returns 10 Years



The chart above shows the correlation between the Shiller P/E and annualized forward returns over the next 10-years since 1950. If history repeats, a buy and hold equity approach over the next 10-years should deliver a relatively disappointing experience.

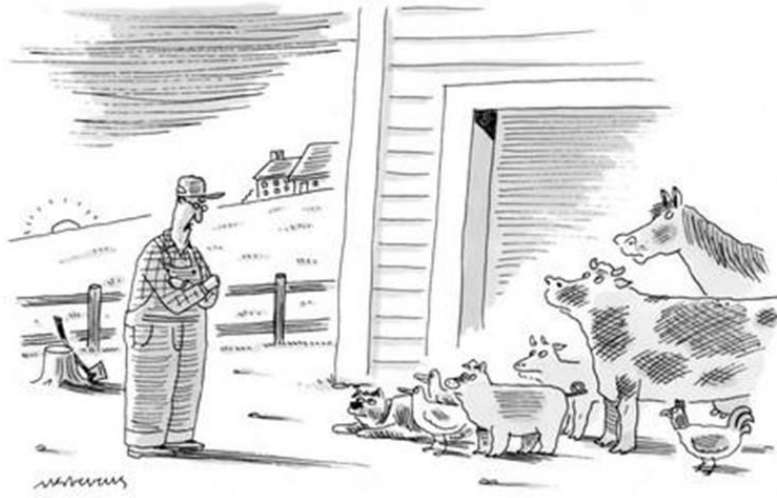
It is important to be aware of the chart above and consider its implications for your investment approach over the next decade. Thoughts that occur to Delta when viewing the chart:

1. Looking at the past 10-years average earnings is somewhat like driving a car by looking through the rear-view mirror. The S&P 500 is enjoying very rapid earnings growth which is discounted by this measure. The forward 12-month P/E on the S&P 500 at 21x is about half of the Shiller P/E.
2. It is quite possible that the average annual return during the next ten years is zero or negative. But that does not prevent any single year from showing strong positive returns. In fact, it is most likely the next ten years of stock market price performance will include strong up years and significant down years which achieves a very low average annual return. This would be somewhat like the price performance of the S&P 500 from 2000 to 2013.
3. If Shiller's Nobel Prize observation turns out to be an accurate prediction of the next ten years, an investor should have a plan for how to participate in the bullish cycles and avoid the major down periods. Unlike the prior ten years, buy-and-hold may be entirely the wrong solution for creating wealth in the next ten years.
4. Investing involves knowing when to buy, what to buy and when to sell. Investment success in the next ten years may depend on your having an effective sell discipline.

The Conference Board Leading Economic Index (LEI) was reported this week. Leading economic metrics increased by 0.9% in October (chart below). "The U.S. LEI rose sharply in October suggesting the current economic expansion will continue into 2022 and may even gain some momentum in the final months of this year," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. For now, expected forward returns from equities continue to look attractive.

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.



"Who tipped off the turkey?"

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

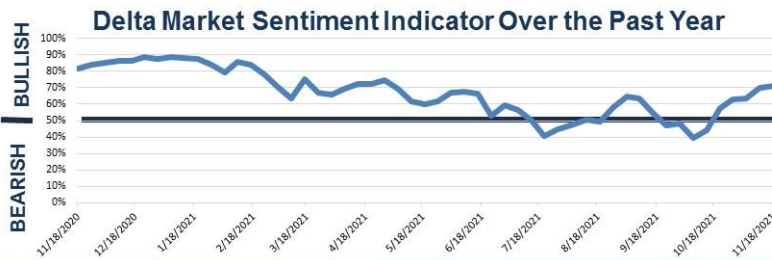
71.4

Our technical indicator increased from 70.2 to 71.4 this week

INDICATOR STATISTICS

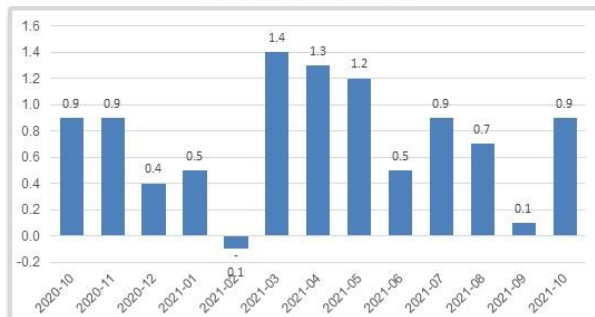
Consecutive Bullish Weeks:	5
Cycle Inception Date:	10/21/2021
Range:	57.5 – 71.4
Mean:	65.1
Bullish Weeks YTD:	41
Bearish Weeks YTD:	5
*S&P 500	3.8%
*DJIA	1.1%
*NASDAQ	5.3%

* Percentage change during current cycle



Leading Economic Index % Change Monthly

Oct. 2020 – Oct. 2021



Source: The Conference Board – last update 11/18/2021

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