

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.

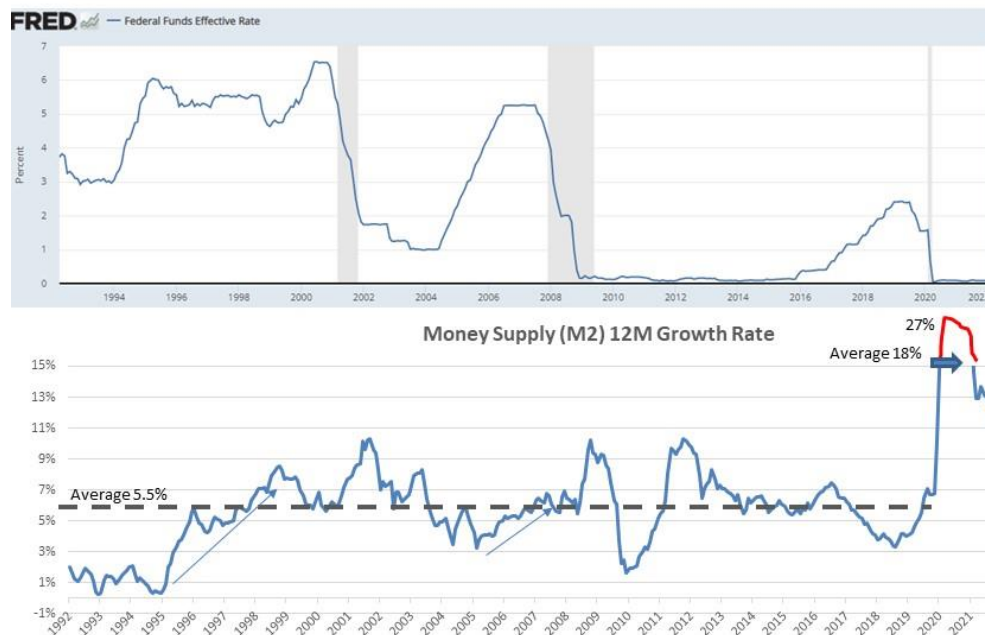
March 25, 2022

Easy Money Speculation

It is often easier to see financial speculation when assets are being sold rather than bought. The 80% 2000-2002 tech bubble collapse and 2008-2009 housing market demise are examples of speculation becoming painfully evident as assets were sold.

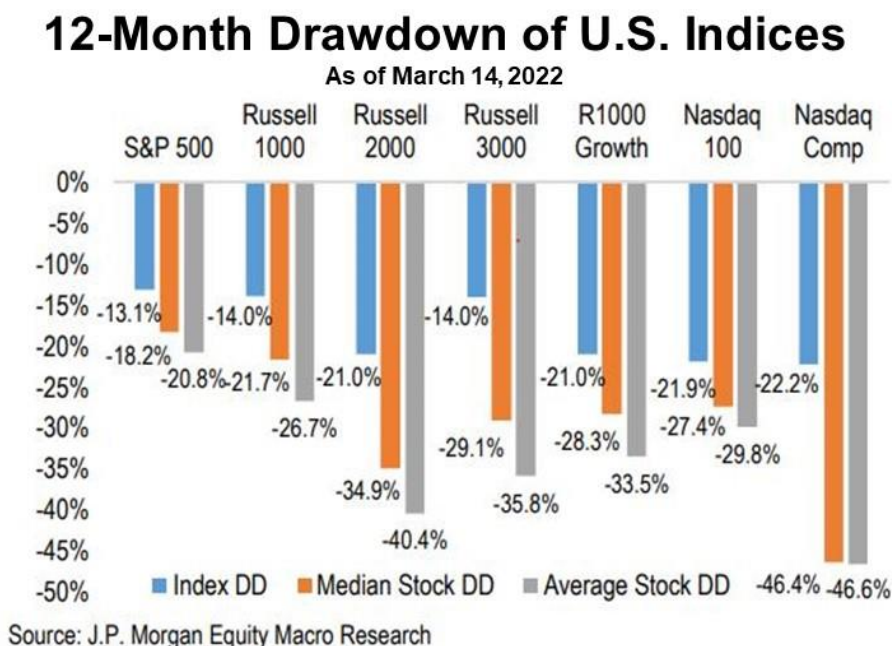
Speculation in financial assets is enabled with easy money. Easy money means very low interest rates and/or increases in money supply. Putting readily available money to work in speculative assets increases as interest rates (the cost of capital) approach zero. Since 1992, annual money supply growth has averaged 5.5%. Over the past 24 months (during the Pandemic), the average was 18% and peaked at 27%.

Fed Funds Rate and Money Supply Growth



JPMorgan Asset Management market strategist Dr. Kelly likes to say, “When the carrying costs of crazy are no longer zero, valuations are likely to go down.” At the start of 2022, most Wall Street analysts believed the Federal Reserve would raise the Fed Funds rate two or three times this year. As inflation reports soared, Fed rate hike expectations quickly rose to five and even to seven 25 basis points moves. In the past week, the Fed has been signaling seven rate hikes this year.

The Federal Reserve raised the Fed Funds rate on March 15, the first rate hike in more than three years. As of March 15, the major U.S. stock market indexes were negative on a 12-month basis. What is somewhat shocking is how far down the average stock traded. For example, the drawdown in the average NASDAQ stock was **-46.6%** over the previous twelve months versus a -22.2% pullback in the market-cap weighted index.

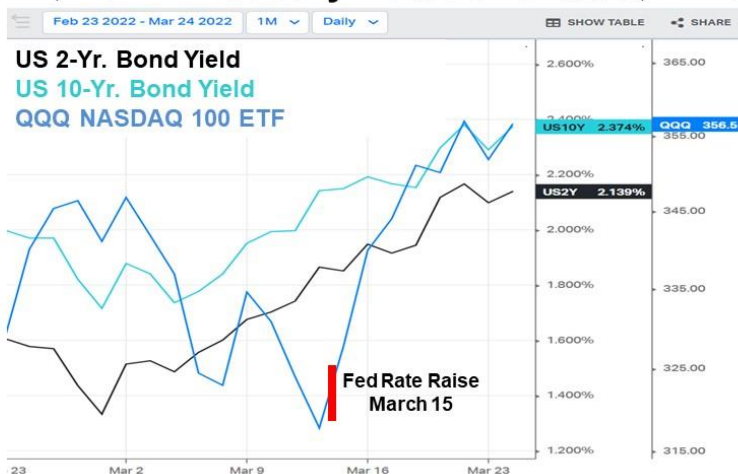


The chart above highlights that the stocks of large, profitable companies significantly outperformed stocks of smaller, less profitable (not profitable) speculative companies. For example, stocks of profitable companies like Google (GOOG), Microsoft (MSFT) and Apple (AAPL) far outperformed Hubspot (HUBS), Roblox (RBLX) and Beam Therapeutics (BEAM), all three with negative earnings. The expectation of rising rates helped reduce stock market speculation.

There are two pieces of good news to take away from this. The first is the expectations for rate hikes are now aligned with the reality of rate hikes. The stock market is less likely to suffer from negative rate hike surprises relative to expectations going forward. The second piece of good news is with the price correction, stocks may have bottomed and are beginning to rise even as rates move higher.

The chart below shows the performance of the NASDAQ 100 ETF (QQQ) relative to the 2-year and 10-year U.S. treasury rates. Since the Fed rate hike on March 15, interest rates increased and the QQQ is up near 12% from the March 14 closing price.

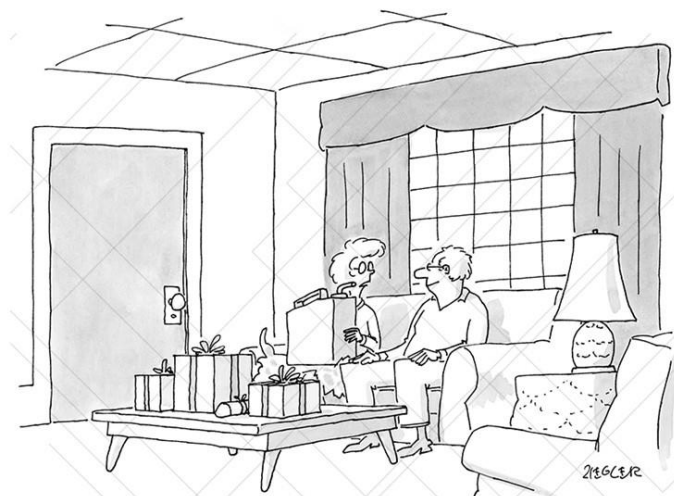
2-Yr., 10-Yr. Treasury Rates and QQQ, 1 Month



The positive stock action since the rate hike may suggest Federal Reserve rate actions have been priced in and the worst is behind us.

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.



"Why, thank you dear—I suppose five gallons of gas is a thoughtful birthday gift."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

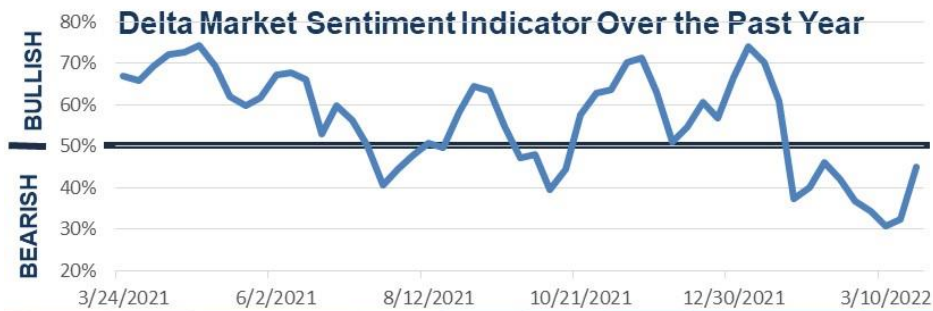
45.1

Our technical indicator increased from 32.3 to 45.1 this week

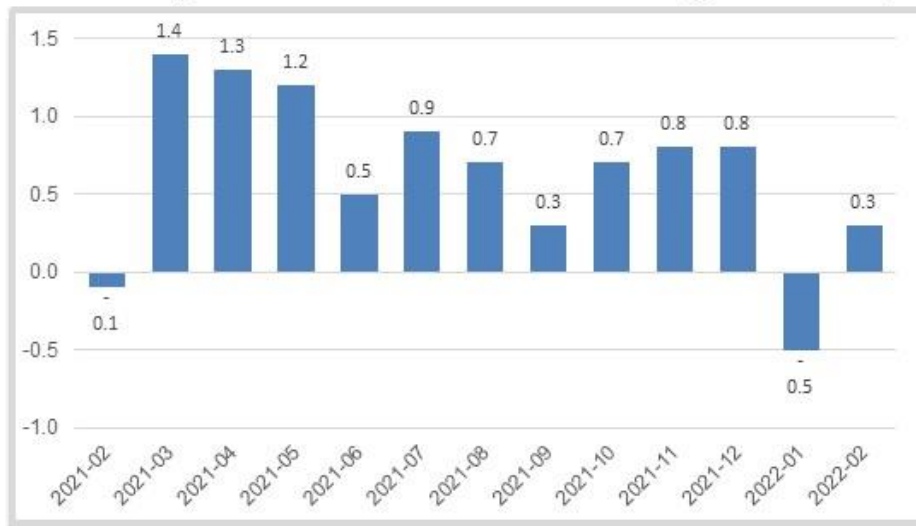
INDICATOR STATISTICS

Consecutive Bearish Weeks:	9
Cycle Inception Date:	1/27/2022
Range:	30.7 – 46.2
Mean:	38.3
Bullish Weeks YTD:	3
Bearish Weeks YTD:	9
*S&P 500	3.5%
*DJIA	0.9%
*NASDAQ	4.7%

* Percentage change during current cycle



Leading Economic Index % Change Monthly



Source: The Conference Board – last update 3/18/2022

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