

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.

July 1, 2022

Modern Finance

The financial industry in the United States is the world leader in innovation. In 1996, the first Exchange Traded Fund (ETF) began trading. It was the Bloomberg Barclays TIPS (TIP). It was followed by the S&P 500 (SPY) in 1998. Today, there are thousands of ETFs with \$328 billion of assets. ETF popularity is driven in their advantages over mutual funds including lower expense ratios, intra-day liquidity and tax advantages. As the ETF industry has developed, it has migrated from offering only index portfolios at a low cost to a better way to own actively managed and complex investment strategies with the purchase of a single ticker.

The markets and the financial industry never rest. In 2018, the first defined outcome ETF was launched. Defined outcome ETFs specify a specific downside “buffer” and upside cap over a prespecified investment period. For investors worried about market volatility and downside protection, being able to purchase an ETF that “defines” the range of possible outcomes over a period in advance of the investment may be an attractive choice.

We are at a time in market history when defined outcome ETFs may make a lot of sense. The S&P 500 is down roughly 20% year-to-date and volatility is elevated. The S&P 500 is off to its worst first half performance since 1970. A defined outcome ETF can protect against further loss and offer an investor a significant amount of upside participation.

Second quarter earnings season begins in about two weeks. What companies say about the future economic outlook will help determine if the stock market has seen the lows for the year. Consensus earnings estimates have not moved down year-to-date. Given high gas prices, high interest rates and high inflation, a reasonable case can be made that estimates will be revised down on contracting margins and slower sales.

For example, Nike (NKE) reported earnings this week. The company exceeded fiscal Q4 estimates, but they have had an inventory surge and gross margin contraction. Inventory surge and margin contraction may be caused by both a slowdown in sales and a rise in cost of goods (supply chain inflation). A number of measures of consumer spending have been reported below consensus estimates or were revised down this week. A deteriorating macroeconomic environment has been a common theme of companies reporting in the past several weeks.

On the other hand, there are reasons to believe the stock market may be near the lows of the year. The Delta Market Sentiment Indicator (MSI) dropping well below 10 last week (5.2) indicates a very oversold market. Historically, the S&P 500 has been up by double digits over the next twelve months in the wake of a sub-10 reading. From a fundamental standpoint, China is reopening, inflation may begin to slow and the Federal Reserve may not have to raise rates as much as currently anticipated.

Defining your investment outcome with an ETF (that offers daily trading liquidity) in this volatile and negative trending market allows an investor to limit portfolio volatility and downside while not losing out on potential market upside. We invite you to call us to discuss defined outcome ETFs and how Delta might help you apply this technology most effectively in your portfolio.

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.



"I'm sorry, sir, but Dostoyevsky is not considered summer reading. I'll have to ask you to come with me."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

13.0

Our technical indicator increased from 5.2 to 13.0 this week

INDICATOR STATISTICS

| | |
|----------------------------|------------|
| Consecutive Bearish Weeks: | 9 |
| Cycle Inception Date: | 5/4/2022 |
| Range: | 5.2 – 40.8 |
| Mean: | 24.3 |
| Bullish Weeks YTD: | 8 |
| Bearish Weeks YTD: | 18 |
| *S&P 500 | -10.6% |
| *DJIA | -8.0% |
| *NASDAQ | -12.3% |

* Percentage change during current cycle



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