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Delta manages portfolios at TD Ameritrade and Schwab.

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October 14, 2022

Technically Speaking, Close Your Eyes and Buy

Core CPI was up 6.6% in September versus 6.3% in August. Counter to market expectations, inflation is getting worse. The Fed is now expected to raise the Fed Funds rate another 0.75% in November and December. If a rate hike equals a 0.25% rate increase, we are facing another six hikes before year end. The 10-year U.S. treasury may migrate up to 5% and 30-year fixed rate mortgages could go to 8%.

When this news was released on Thursday morning, the S&P 500 initially depreciated by about 2.4% from the prior day close. Several hours later, the S&P was up about 2.5% from the previous day close and roughly 5% from the intra-day low. The CBOE volatility index was down all day.

The market action on Thursday morning is hard to explain from a fundamental perspective. The explanation that seems most credible is technical. When the S&P 500 fell below 3,500 (3,491.58), it marked a 50% retracement of the pandemic rally. This may have triggered a short-covering rally and long-only buyers afraid of missing out on buying near or at the low. Technically speaking, the lows of Thursday morning were a time to close your eyes and buy (at least as a swing trade).

Since 1950, the S&P 500 is 18-0 from the start of November during midterm election years through the following six months. The median percent change is up 16.23%.

S&P PERFORMANCE FROM NOVEMBER THROUGH APRIL IN MID TO PREELECTION YEARS							
YEAR	NOV%	DEC%	JAN%	FEB%	MAR%	APR%	NOV-APR%
1950-1951	-0.1	4.7	6.0	0.6	-1.5	4.4	14.8
1954-1955	8.1	5.1	1.8	0.4	-0.5	3.8	19.8
1958-1959	2.2	5.2	0.4	-0.1	0.1	3.9	12.2
1962-1963	10.2	1.3	4.9	-2.9	3.5	4.9	23.5
1966-1967	0.3	-0.1	7.8	0.2	3.9	4.2	17.2
1970-1971	4.7	5.7	4.0	0.9	3.7	3.6	24.9
1974-1975	-5.3	-2.0	12.3	6.0	2.2	4.7	18.1
1978-1979	1.7	1.5	4.0	-3.7	5.5	0.2	9.2
1982-1983	3.6	1.5	3.3	1.9	3.3	7.5	23.0
1986-1987	2.1	-2.8	13.2	3.7	2.6	-1.1	18.2
1990-1991	6.0	2.5	4.2	6.7	2.2	0.0	23.5
1994-1995	-4.0	1.2	2.4	3.6	2.7	2.8	9.0
1998-1999	5.9	5.6	4.1	-3.2	3.9	3.8	21.5
2002-2003	5.7	-6.0	-2.7	-1.7	0.8	8.1	3.5
2006-2007	1.6	1.3	1.4	-2.2	1.0	4.3	7.6
2010-2011	-0.2	6.5	2.3	3.2	-0.1	2.8	15.2
2014-2015	2.5	-0.4	-3.1	5.5	-1.7	0.9	3.3
2018-2019	1.8	-9.2	7.9	3.0	1.8	3.9	8.6

6-Month Performance

Up-Dn = **18-0**

Avg % Chg = **15.18%**

Med % Chg = **16.23%**

Year-to-date, the S&P 500 has declined by about 25%. Below is a chart of the subsequent 1, 3, 5 and 10-year returns of the S&P 500 after pulling back by 25%.

S&P 500 Total Returns Following 25% Drawdown (%)

Positive Negative

25% Drawdown Period	Peak-to-Trough Drawdown	1-Year	3-Year	5-Year	10-Year
Dec 1961-Jun 1962	-28	34	70	100	178
Nov 1968-Apr 1970	-36	35	47	28	100
Jan 1973-Apr 1974	-48	1	23	44	189
Nov 1980-Aug 1982	-27	61	108	272	485
Aug 1987-Oct 1987	-34	28	55	119	471
Mar 2000-Mar 2001	-49	2	1	24	37
Oct 2007-Sep 2008	-57	-5	11	65	209
Feb 2020-Mar 2020	-34	62	-	-	-
Jan 2022-Sep 2022	-25	-	-	-	-
Average	-38	27	45	93	238

Historically, drawdowns of 25% or more have delivered a forward one-year return of 27% on average. In the worst case (Oct 2007 – Sep 2008), the subsequent 1-year return was -5%.

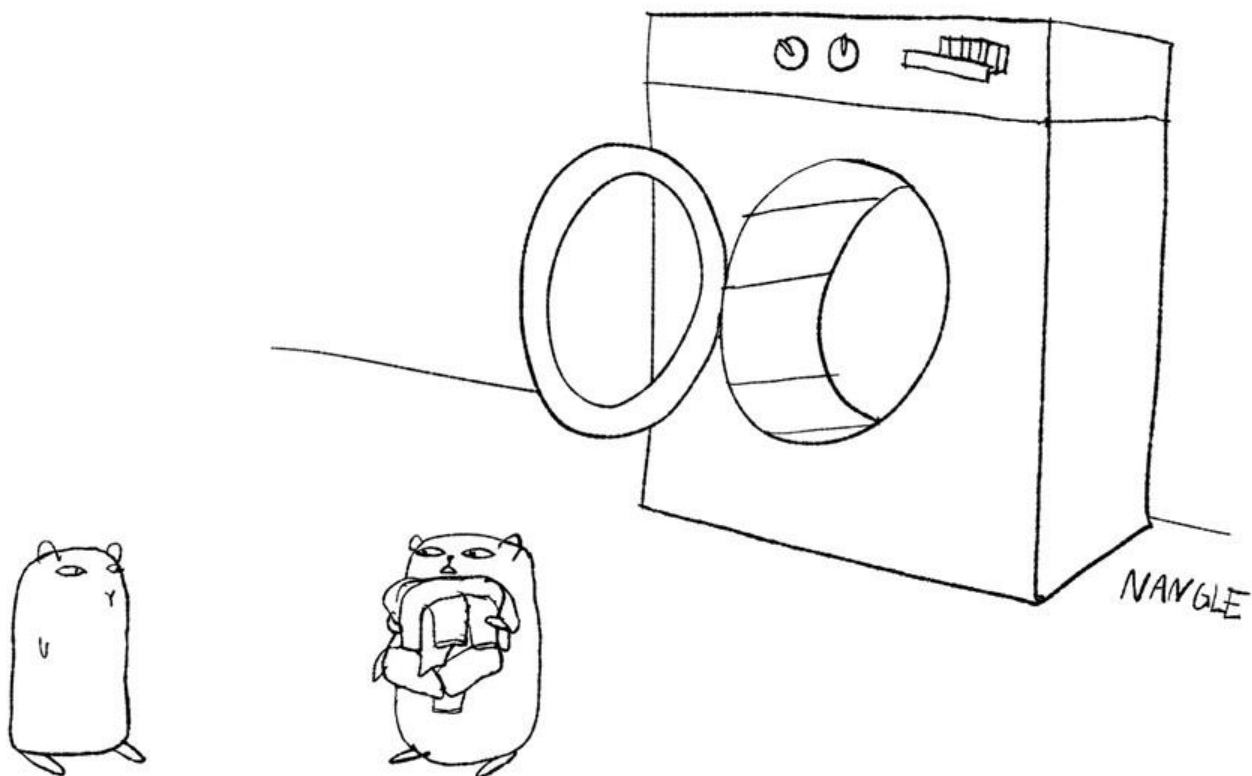
Analysts are predicting the economy is moving into an extended period of below-trend growth with structurally elevated inflation. The Fed's policy of low interest rates for longer is now high rates for longer. Consensus thinking is bearish with expected market returns to be subdued for years and volatility to be above historical averages.

The consensus, fundamental bearish case makes it difficult for a positive return seeking investor to add to an equity portfolio now. But, if you consider the historical precedent (in mid-term election years and after periods when the S&P 500 has declined by 25% or more), the forward 6 and 12-month average return looks attractive.

This situation argues for keeping some equity exposure on the table. Technically speaking, there is a case for staying long.

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 going to go do some laundry, exercise, and shower."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

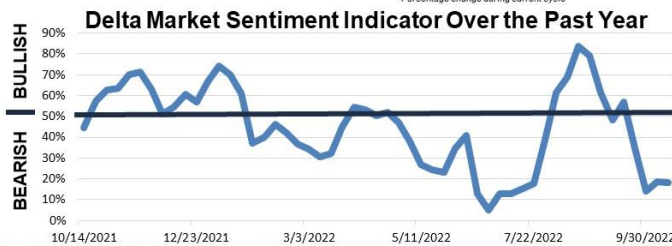
18.2

Our technical indicator decreased from 18.5 to 18.2 this week

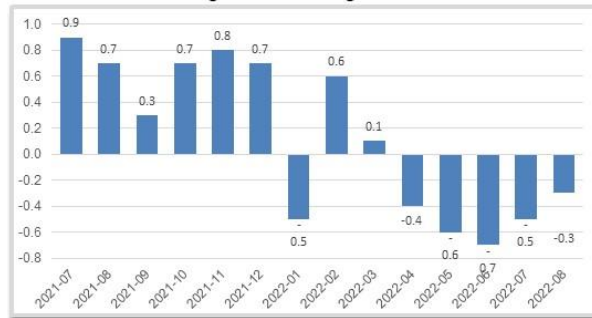
INDICATOR STATISTICS

Consecutive Bearish Weeks:	4
Cycle Inception Date:	9/23/2022
Range:	14.3 - 34.8
Mean:	21.5
Bullish Weeks YTD:	15
Bearish Weeks YTD:	27
*S&P 500	-6.5%
*DJI	-4.5%
*NASDAQ	-8.4%

*Percentage change during current cycle

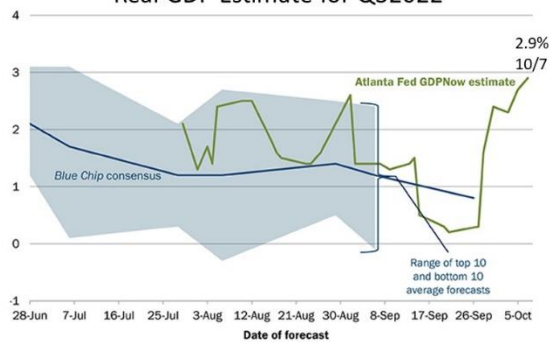


Leading Economic Index % Change Monthly August 2021 – August 2022



Source: The Conference Board – last update 9/22/2022

Atlanta Fed GDPNow Forecast Real GDP Estimate for Q32022



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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