

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.

October 6, 2023

Value Shopper

Stocks

From the July 2023 high, the S&P 500 is down by about 8%. From the all-time high of 4818.62 reached on January 3, 2022, the S&P 500 index is down almost 12% and the drawdown has persisted for 21 months.

The S&P 500 is trading just above its 200-day moving average. The small-cap Russell 2,000, Dow Jones Industrial Average and the equally weighted S&P 500 index are all well below their 200-day moving averages. Momentum investors like to buy when securities have passed up through a moving average and are trading higher. Value investors often buy when the security is below the moving average. Investors may be hesitant to buy the S&P 500 as there is a reasonable likelihood that it will follow other major indexes down through its 200-day moving average.

S&P 500 earnings:

- 2022: \$218.09, actual
- 2023: \$220.83, consensus expectation
- 2024: \$247.49, consensus expectation
- 2025: \$277.03, consensus expectation

On 2024 earnings, the S&P 500 is trading at a P/E of 17.1x. The 25-year average forward 12-month P/E ratio is 16.75x. Using just this metric, value shoppers may not be rushing to buy the market cap weighted S&P 500 index yet.

If we apply the 25-year average P/E multiple to 2024 earnings, the implied level of the S&P 500 index is 4145. If you pull the top 10 largest stocks out of the S&P 500, the remaining 490 stocks are trading at a multiple of 16.4x.

The Delta Market Sentiment Indicator is now at 19.5. This indicates the S&P 500 measured by its constituents equally is oversold. At this level, there is a good probability the market will trade higher over the next twelve months. In the near-term, a reading of below 20 indicates uncertainty is elevated. Investor uncertainty creates volatility.

Bonds

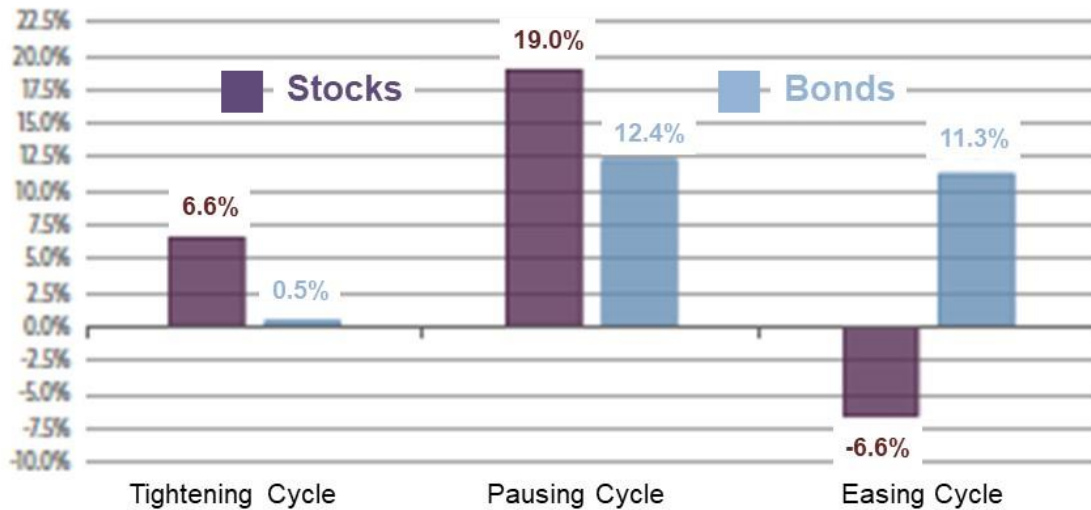
Guggenheim, a highly respected institutional bond investment company, believes bonds are as inexpensive as they were during the Great Financial Crisis (GFC). Many of Guggenheim's bond funds are trading at about "87 cents on the dollar." Below is a chart of the price of the investment grade corporate bond index ETF (AGG). The unprecedented Federal Reserve rate rise cycle has been extremely damaging to bond values over the past two and a half years.

IG Corporate Bond Index (AGG)



When interest rates rise, bond values decline. When the Federal reserve "pauses" rate hikes and when the Federal Reserve lowers interest rates, bonds do well. Below is a chart showing stock and bond performance since 1993 in Fed Tightening, Pausing and Easing cycles.

Stock and Bond Performance in Rate Cycle



Source: Guggenheim Investments, Bloomberg. Data as of 8.31.2023. Past performance does not guarantee future results.

The 30-day Fed Funds futures pricing data futures data indicate it is unlikely the Fed will raise rates again and rate cuts will begin next June. If this proves to be the case, we are in the “pause” phase of the rate cycle on our way to the easing cycle. The chart below shows how bonds should react to a 1% rate rise versus a 1% rate fall.

Bond Performance 1%/-1% Rate Rise/Fall



Total return, assumes a parallel shift in the yield curve.

Risk/Reward skewed to the upside.

Source: JPMorgan

Tax Preparation Services

Delta Investment Management is now working with Allen Ferrer, owner of Ferrer Tax & Accounting PC for tax planning and preparation services. Ferrer Tax & Accounting is a full-service CPA firm that provides tax, accounting, and consulting services for individuals, partnerships, corporations, and nonprofit organizations across the United States. Their diverse client base includes, but is not limited to, high net worth individuals, self-employed business owners, real estate professionals, startups, and investment professionals.

Ferrer Tax & Accounting is accepting new clients for both the 10/16 tax extension deadline and the upcoming 2023 tax season. If you would like to learn more, you can visit their website at www.aifcpatax.com or call (628) 313-0986 to schedule a free consultation. Let Allen know that Delta sent you.

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 told him if he watched too much football, that would happen."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

Bearish

THIS WEEK'S NUMBER IS

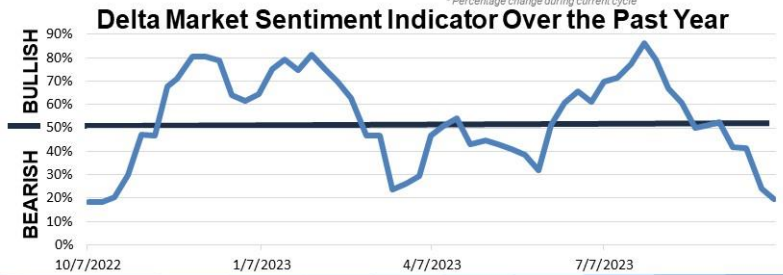
19.5

Our technical indicator decreased from 24.1 to 19.5 this week

INDICATOR STATISTICS

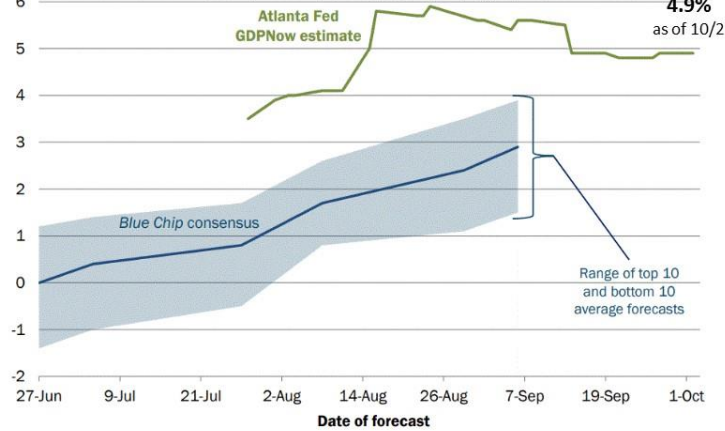
Consecutive Bearish Weeks:	4
Cycle Inception Date:	9/14/2023
Range:	19.5 – 41.8
Mean:	31.7
Bullish Weeks YTD:	24
Bearish Weeks YTD:	16
*S&P 500	-5.6%
*DJIA	-5.1%
*NASDAQ	-5.4%

* Percentage change during current cycle



Atlanta Fed GDPNow Forecast

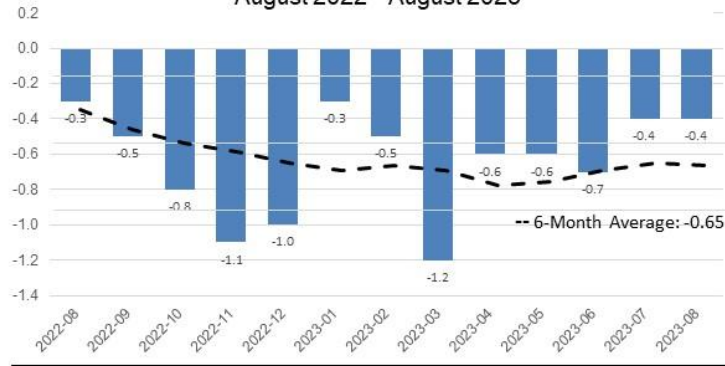
Real GDP Estimate for 3Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Leading Economic Index % Change Monthly

August 2022 – August 2023



Source: The Conference Board – last update 9/21/2023

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