

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 3, 2023

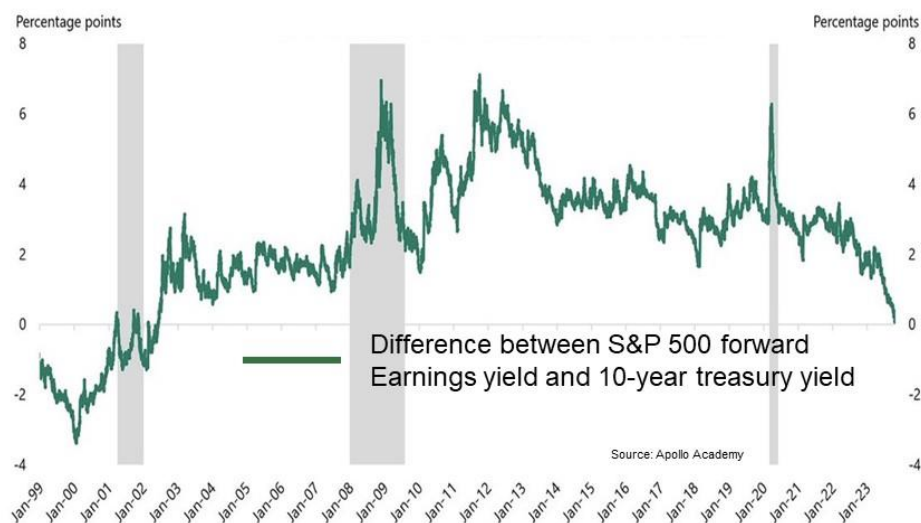
Excess Return

Investors buy “risky” assets because they believe the excess return will be sufficiently attractive to make the risky asset a better-buy than the low/no-risk asset. All investing requires predictions about the future and as a result, an element of risk. To improve the likelihood of achieving attractive portfolio returns, we use probabilities and math to form calculated risk expectations about future returns.

Unfortunately for risk assets currently, the math is not adding up. In very simple terms, risk-free ultra-short duration U.S. treasuries pay a yield of about 5.3%. The S&P 500 earnings/yield is about 5.3%. The math says you are not being paid excess return to invest in risky stocks versus low risk, short-duration treasuries.

The chart below shows the difference between the S&P 500 earnings yield and the 10-year treasury touched zero in October for the first time in about twenty years.

S&P 500 Earnings Yield vs. 10-year Treasury Yield



The excess return from buying risky assets is called the Risk Premium. The risk premium over the past 10-years through the end of 2022 averaged about 4%. The average annual return of the S&P 500 without dividends reinvested was 10.6% during. When the risk premium is near zero, as it is now, it is reasonable to expect lower returns from risk assets.

The three variables that can restore higher expected excess return to the stock market are:

- Lower risk-free interest rates, and/or
- Higher earnings estimates, and/or
- Lower stock values.

The Federal Reserve kept the Fed Funds rate unchanged this week at 5.25-5.5%. Following the Federal Reserve's press conference on Wednesday, investors interpreted Fed Chairman Powell's remarks as no more rate hikes and a high likelihood for two rate cuts over the next twelve months. The 2-year treasury yield declined from 5.08% to 4.94%. The 10-year yield fell from 4.91% to 4.63%. The stock market rallied on lower rates.

Coming into earnings season, consensus analyst estimates had S&P 500 earnings down by as much as 4.4% year-over-year in the third quarter. With over 50% of the S&P 500 companies reporting, the actual earnings growth for the quarter is a positive 2.7%.

From the beginning of August to the low of October (last Friday) the S&P 500 index depreciated by about 10%. The forward P/E of the S&P 500 is 17.1x, which is below the 10-year average of 17.5x.

Interest rates may have peaked, earnings currently are showing growth and stock valuations are lower. These are positive factors for risk asset valuations and may enable the S&P 500 to find support near its current level.

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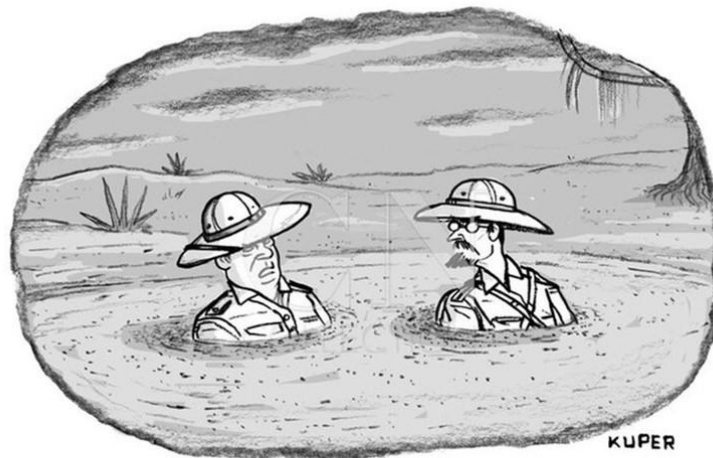
Who we are:

- An SEC Registered Investment Advisor
- We manage accounts for individuals with the assets held at Charles Schwab in the client's name.
- We are a fiduciary -- Delta does not receive commissions from any source.
- We are wealth managers.
- We have decades of experience in mitigating portfolio downside risk.

- We are an independent, high-service organization.
- We offer top-notch tax loss harvesting investment programs.
- We can help recommend you to a CPA tax planning and preparation service.

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.



“Thank God for the elephant.”

Delta Stock Market Dashboard

MARKET SENTIMENT IS

Bearish

THIS WEEK’S NUMBER IS

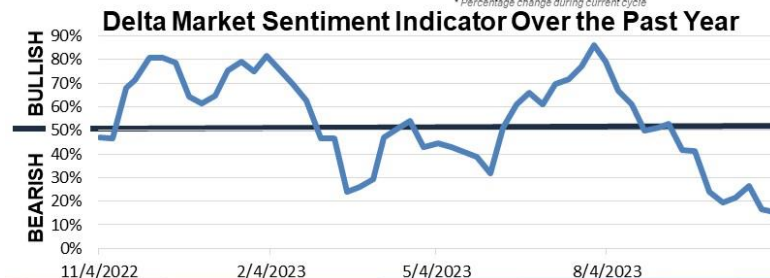
15.5

Our technical indicator decreased from 16.7 to 15.5 this week

INDICATOR STATISTICS

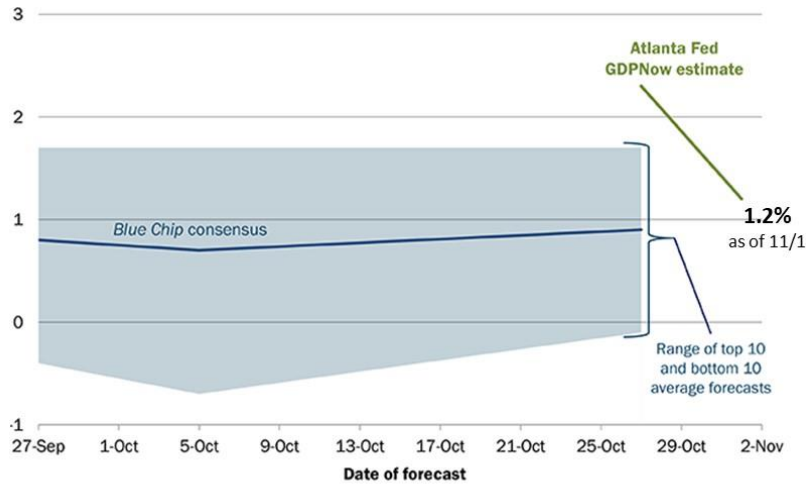
Consecutive Bearish Weeks:	8
Cycle Inception Date:	9/14/2023
Range:	15.5 – 41.8
Mean:	25.9
Bullish Weeks YTD:	24
Bearish Weeks YTD:	20
*S&P 500	-4.8%
*DJIA	-3.8%
*NASDAQ	-5.0%

* Percentage change during current cycle



Atlanta Fed GDPNow Forecast

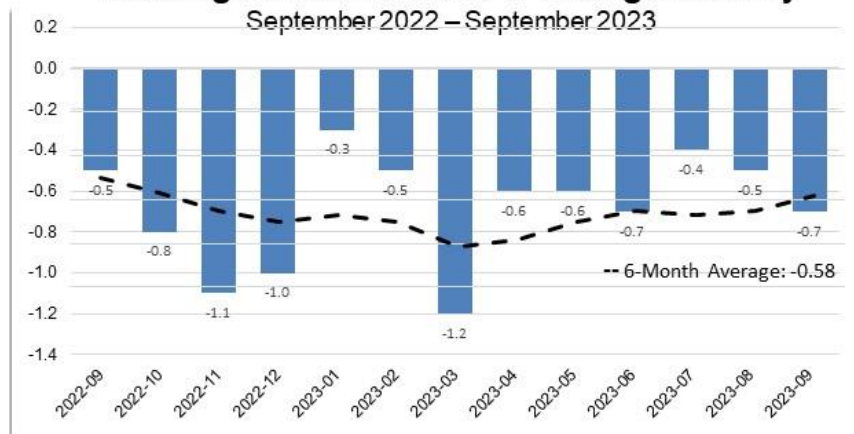
Real GDP Estimate for 4Q2023



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Leading Economic Index % Change Monthly

September 2022 – September 2023



Source: The Conference Board – last update 10/19/2023

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