

DELTA
INVESTMENT
MANAGEMENT

AAII-SD

***Two Leading Indicators That
Predict Recessions and the Stock
Market Crash that Follows***

708 Montgomery Street
San Francisco, CA 94111
(415) 249-6337, www.deltaim.com

Disclosures

The presentation is being provided for informational purposes only and should not be used or construed as a recommendation of any security, sector or investment strategy.

The opinions in this presentation are as of the date of the presentation.

Stock and bond markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments as well as interest rate risk, inflation, credit and default rates. In addition, foreign securities are subject to interest rate, currency exchange rate, economic and political risks, all of which are magnified in emerging markets.

The S&P 500 Index is a market capitalization weighted index of 500 widely held stocks often used as a proxy for the stock market.

Consider the investment objectives, risks, charges, expenses, and instruments used to implement a strategy before investing.

Past performance is no guarantee of future results or returns.

Investing involves risk, including risk of loss.

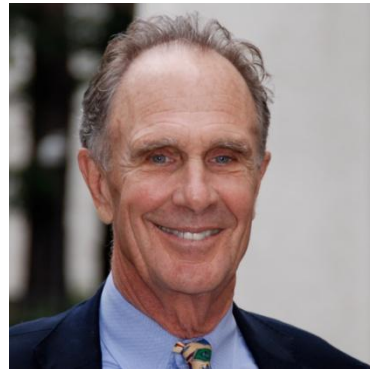
Delta Investment Management is a California registered investment advisor. The firm is based in San Francisco, CA. For more information, please visit www.deltaim.com or call (415) 249-6337.

Delta Investment Management

Delta is an SEC Registered Investment Advisor (RIA) headquartered in San Francisco. Delta's wealth management services have an emphasis of avoiding major bear markets. Delta manages separately managed accounts at TD Ameritrade and Charles Schwab for qualified retirement accounts (IRAs) and non-qualified accounts for individuals, trusts and corporations.



Nick Atkeson



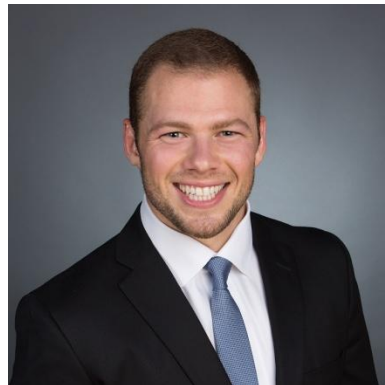
Mike Kress



**Jackie Ann
Patterson**



Andrew Houghton



Kyler Hasson

San Francisco
Team

IRAs
Los Angeles
Dallas
Greenville, SC

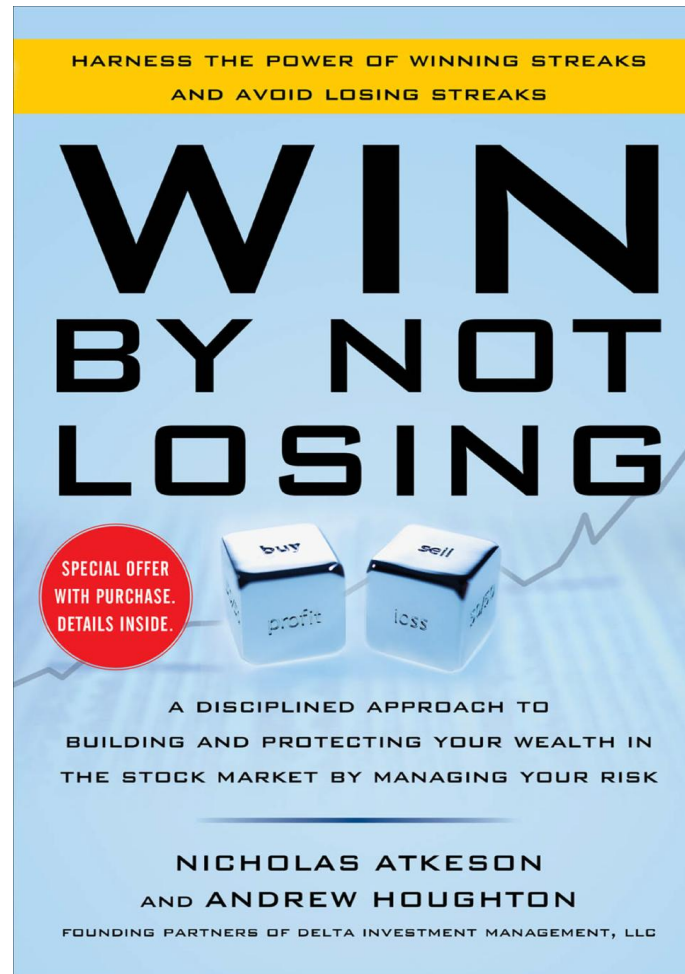
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Delta Investment Philosophy

- ❖ *We believe there are periods in market cycles to be fully invested and there are other periods not to be fully invested*
- ❖ *As such, we believe it is necessary to be proactive in managing money*
- ❖ *As active managers, we follow market-tested, proven investment disciplines*
- ❖ *During bullish cycles, we seek to invest in the strongest performing assets*
- ❖ *During bearish cycles, we seek to preserve capital by reducing exposure to risk assets*
- ❖ *We believe diversification in both asset type and asset allocation methodology strengthens portfolio performance through the full investment cycle*

Win by Not Losing

Book Available
On Amazon



Weekly Newsletter



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Delta Insights

a weekly commentary on investing

Delta Investment Management is a registered investment advisory firm headquartered in San Francisco.

Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new partner.

Delta manages stock and bond portfolios at Schwab and TD Ameritrade.

Please contact Delta at info@deltaim.com or 415-249-6337 if you would like to learn more how we can be your partner.

The Hidden Risks of “Safe” Assets

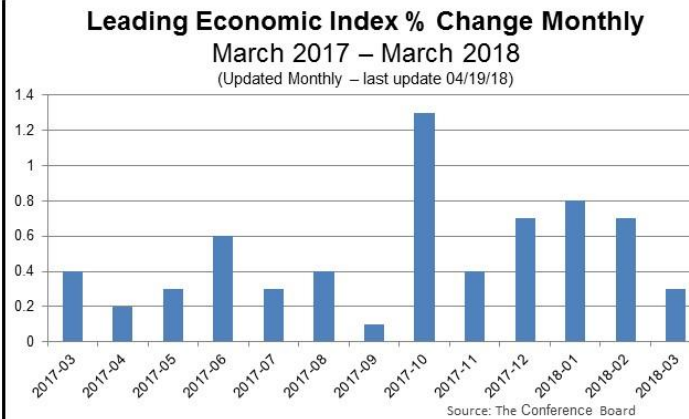
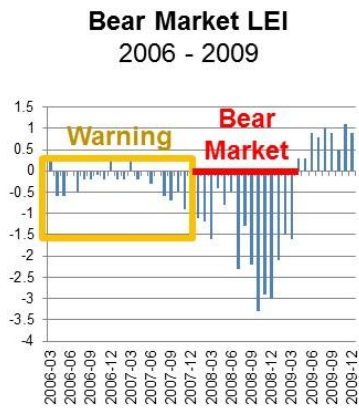
April 6, 2018

Dear Nick,

Money managers often advise clients who would like more safety in their portfolios to increase the weighting of bonds versus stocks. Historically, bonds have experienced lower volatility than stocks. Volatility (standard deviation) is one way risk is measured in finance.

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Stock Market Dashboard



MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

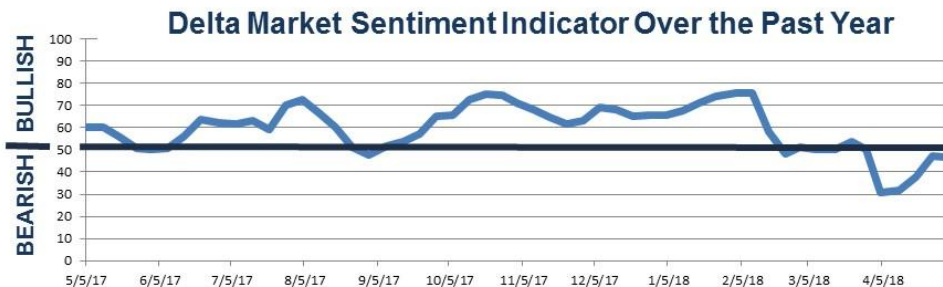
45.9

Our technical indicator decreased
this week from 46.7 to 45.9

INDICATOR STATISTICS

Consecutive Bearish Weeks:	6
Cycle Inception Date:	3/29/2018
Range:	30.7 – 47.0
Mean:	40.0
Bullish Weeks YTD:	12
Bearish Weeks YTD:	6
*S&P 500	-1.4%
*DJIA	-2.1%
*NASDAQ	-0.8%

* Percentage change during current cycle



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Delta MSI in Barron's

February 3, 2014

BARRON'S

M57

BARRON'S
The Day After Tomorrow and Financial Daily

Market Laboratory • Indicators

MONEY RATES

	Latest	Prev.	1-yr. High
Discount Rate (NY)	%	%	%
Prime Rate (Bank)	3%	3%	3%
3-Month T-Bill	%	%	%
6-Month T-Bill	%	%	%
12-Month T-Bill	%	%	%
1-Month CD	%	%	%
3-Month CD	%	%	%
6-Month CD	%	%	%
12-Month CD	%	%	%
1-Month Eurodollar	%	%	%
3-Month Eurodollar	%	%	%
6-Month Eurodollar	%	%	%
12-Month Eurodollar	%	%	%

FEDERAL RESERVE DATA BANK

Member Bank	Latest	Prev.	Year
Reserve Deps. (ML \$)	Week	Change	Change
U.S. Gov't securities:			
Total	3,033,923	+ 13,261	+ 1,282,248
Treasury bills	5,871	—	-20,208
Federal agency securities:			
Total	11	+	12
1-yr. +	11	+	12
2-yr. +	1	+	15
3-yr. +	98	+	-2,744
4-yr. +	32,225	+ 1,020	+ 5,385
5-yr. +	4,981,898	+ 15,830	+ 1,988,328
6-yr. +	11,641	—	—
7-yr. +	9,300	—	—
8-yr. +	45,285	+ 14	+ 764
9-yr. +	4,144,381	+ 13,779	+ 1,085,488
10-yr. +	1,234,843	+ 1,422	+ 78,023
11-yr. +	361	+ 5	+ 77
12-yr. +	88,327	+ 11,828	+ 18,278
13-yr. +	8,000	—	+ 818
14-yr. +	42,310	+ 1,704	+ 28,481
15-yr. +	63,499	-124	-436
16-yr. +	1,625,155	+ 17,471	+ 288,481
17-yr. +	3,519,198	+ 3,882	+ 886,464
18-yr. +	2,394,288	+ 10,728	+ 728,821

DELTA MARKET SENTIMENT INDICATOR

The Delta MSI measures the position of ~3,600 stocks relative to an intermediate-term moving average crossover (MAC) point. When greater than 50% of the stocks followed are above this MAC point, the market is bullish and equities are attractive. When the indicator is below 50%, risk is elevated and stock exposures should be reduced. Manager uses discretion on asset allocation when MSI is 50% +/- 3%.

Current Sentiment	Last Week	2 Weeks Ago	3 Weeks Ago
BULLISH	52.1%	67.4%	65.2%

Current Market Exposure: 100% Equities, 0% Bonds, 0% Cash
Source: Delta Investment Management
www.deltaim.com, (415) 249-6337

Other Money Rates	Latest	Prev.	1-yr. High
3-Month T-Bill	0.26	0.28	0.29
6-Month T-Bill	0.36	0.34	0.37
12-Month T-Bill	0.12	0.12	0.12
1-Month CD	0.08	0.08	0.08
3-Month CD	0.14	0.16	0.17
6-Month CD	0.22	0.23	0.27
12-Month CD	0.25	0.25	0.41
1-Month Eurodollar	0.18	0.18	0.18
3-Month Eurodollar	0.19	0.18	0.20

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Latest	Prev. Wk.	1-yr. High	1-yr. Low
3-Month T-Bill	0.26	0.28	0.29
6-Month T-Bill	0.36	0.34	0.37
12-Month T-Bill	0.12	0.12	0.12
1-Month CD	0.08	0.08	0.08
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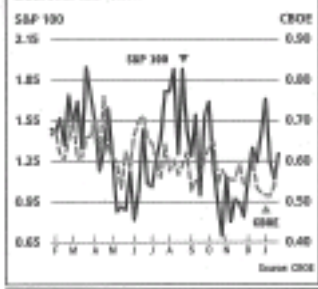
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ADJUSTABLE MORTGAGE BASE RATES

	Jan 25	Jan 25	1-yr. High	1-yr. Low
1-Year Treas/Bills	0.11	0.11	0.15	-26.57
1-Year Treas/Notes	0.48	0.40	0.26	53.85
1-Year Treas/Notes	0.88	0.75	0.29	185.13
1-Year Treas/Notes	1.62	1.85	0.79	188.86
1-Year Treas/Bills	2.82	2.86	1.90	-82.42
1-Year Treas/Bills	3.47	3.53	2.65	-36.45
1-yr. Disc'd % One	0.784	0.783	1.871	-26.80
1-yr. Disc'd % Two	4.25	4.21	3.279	-25.18

CRUDE PUT/CALL RATIO vs S&P 100

Readings in the CRUDE equity put-call ratio of 0.8108 and in the S&P 100 of 125.000 are considered bullish, for instance, Bearish signals flash when the equity put-call ratio reaches the vicinity of 20.000 and the index rate hits 15.000.



INVESTOR SENTIMENT READINGS

High bullish readings in the Consensus stock index or in the Market Vane stock index usually anticipate of Market Ups, low, market declines.

	Last Week	2 Weeks Ago	3 Weeks Ago
Consensus Index	85%	77%	72%
Market Vane	81%	87%	88%

MARKET VANE

Market Vane readings in the Consensus stock index or in the Market Vane stock index usually anticipate of Market Ups, low, market declines.

MONEY SUPPLY

	Latest	Prev.	1-yr. High	1-yr. Low
Money Supply (M2, \$ trn)	3,033,923	+ 13,261	+ 1,282,248	
Money Supply (M1, \$ trn)	1,625,155	+ 17,471	+ 288,481	

FOREIGN EXCHANGE

The foreign-exchange mid-range rates below apply to trading strong banks in amounts of \$1 million and more, as quoted at 1 p.m. East via CME by Reuters and at New York, local transactions provide lower rates of foreign currency per dollar.

Country	Foreign Currency (100 U.S. \$)	Foreign Currency (100 U.S. \$)	U.S. \$ (100 Foreign Currency)	U.S. \$ (100 Foreign Currency)
Argentina (Prev. y)	13.07	13.02	10.000	1.0000
Australia (CME)	0.750	0.744	1.342	1.1515
1-month forward	0.750	0.747	1.342	1.1515
3-month forward	0.750	0.747	1.342	1.1515
6-month forward	0.750	0.747	1.342	1.1515
Bahamas (Prev. y)	1.000	1.000	1.000	1.0000
Brazil (Prev. y)	0.250	0.250	1.000	1.0000
Canada (CME)	0.750	0.744	1.342	1.1515
China (Prev. y)	0.000	0.000	0.000	0.0000
China (Forward)	0.000	0.000	0.000	0.0000
Colombia (Prev. y)	0.000	0.000	0.000	0.0000
Czech Rep. (Prev. y)	0.000	0.000	0.000	0.0000
Denmark (CME)	0.000	0.000	0.000	0.0000
Egypt (CME)	0.000	0.000	0.000	0.0000
Hong Kong (CME)	0.000	0.000	0.000	0.0000
Hungary (Prev. y)	0.000	0.000	0.000	0.0000
India (Prev. y)	0.000	0.000	0.000	0.0000
Indonesia (Prev. y)	0.000	0.000	0.000	0.0000
Israel (Prev. y)	0.000	0.000	0.000	0.0000
Japan (CME)	0.000	0.000	0.000	0.0000
1-month forward	0.000	0.000	0.000	0.0000
3-month forward	0.000	0.000	0.000	0.0000
6-month forward	0.000	0.000	0.000	0.0000
Korea (CME)	0.000	0.000	0.000	0.0000
Malaysia (Prev. y)	0.000	0.000	0.000	0.0000
Malaysia (Forward)	0.000	0.000	0.000	0.0000
Mexico (Prev. y)	0.000	0.000	0.000	0.0000
New Zealand (CME)	0.000	0.000	0.000	0.0000
Norway (CME)	0.000	0.000	0.000	0.0000
Philippines (Prev. y)	0.000	0.000	0.000	0.0000
Poland (Prev. y)	0.000	0.000	0.000	0.0000
Russia (Prev. y)	0.000	0.000	0.000	0.0000
Saudi Arabia (Prev. y)	0.000	0.000	0.000	0.0000
Singapore (CME)	0.000	0.000	0.000	0.0000
South Africa (Prev. y)	0.000	0.000	0.000	0.0000
South Korea (CME)	0.000	0.000	0.000	0.0000
Switzerland (Prev. y)	0.000	0.000	0.000	0.0000
1-month forward	0.000	0.000	0.000	0.0000
3-month forward	0.000	0.000	0.000	0.0000
6-month forward	0.000	0.000	0.000	0.0000
Taiwan (CME)	0.000	0.000	0.000	0.0000
Thailand (CME)	0.000	0.000	0.000	0.0000
Turkey (CME)	0.000	0.000	0.000	0.0000
U.K. (CME)	0.000	0.000	0.000	0.0000
1-month forward	0.000	0.000	0.000	0.0000
3-month forward	0.000	0.000	0.000	0.0000
6-month forward	0.000	0.000	0.000	0.0000
United Arab Emirates	0.000	0.000	0.000	0.0000
Venezuela (Prev. y)	0.000	0.000	0.000	0.0000
Venezuela (Forward)	0.000	0.000	0.000	0.0000

Traditional Risk Management

60/40 Stock/Bond Portfolio

10-Year Average Annual Return: **4.01%**

Maximum Drawdown: **-41%**

60/40 Stock/Bond Composite Index (MSCI/Citi)

No deduction of fees, expenses, or taxes

Through 12/31/2017

Vs.

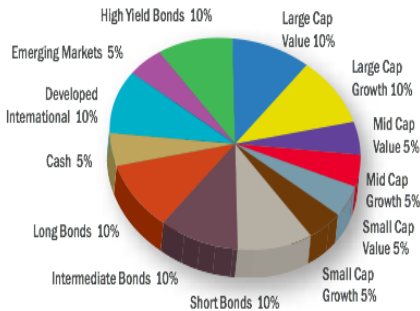
S&P 500 Index

10-Year Average Annual Return: **8.13%**

Maximum Drawdown: **-55%**

No deduction for fees, expenses or taxes

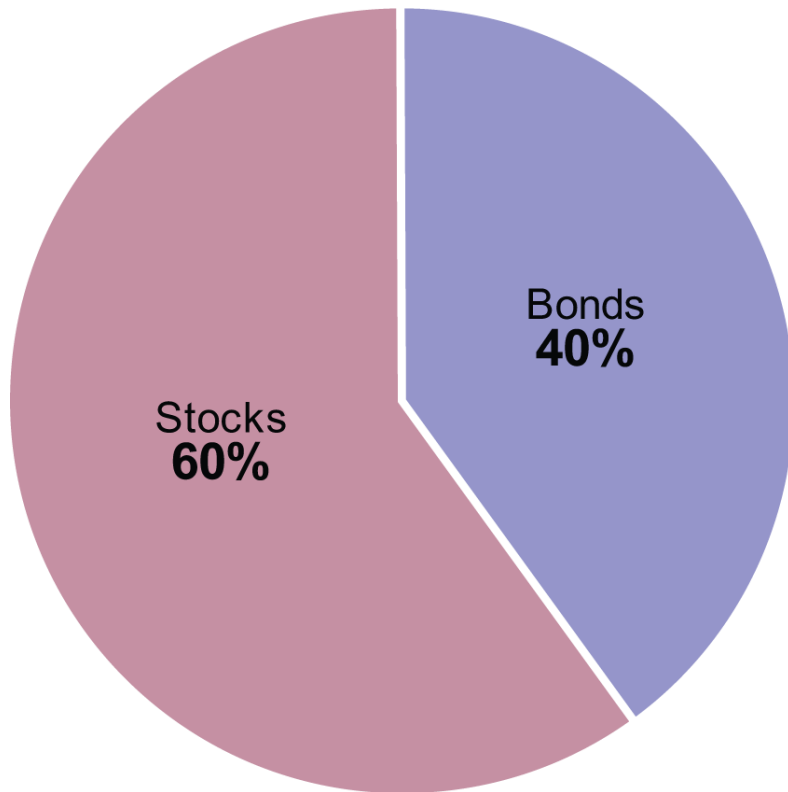
Through 12/31/2017



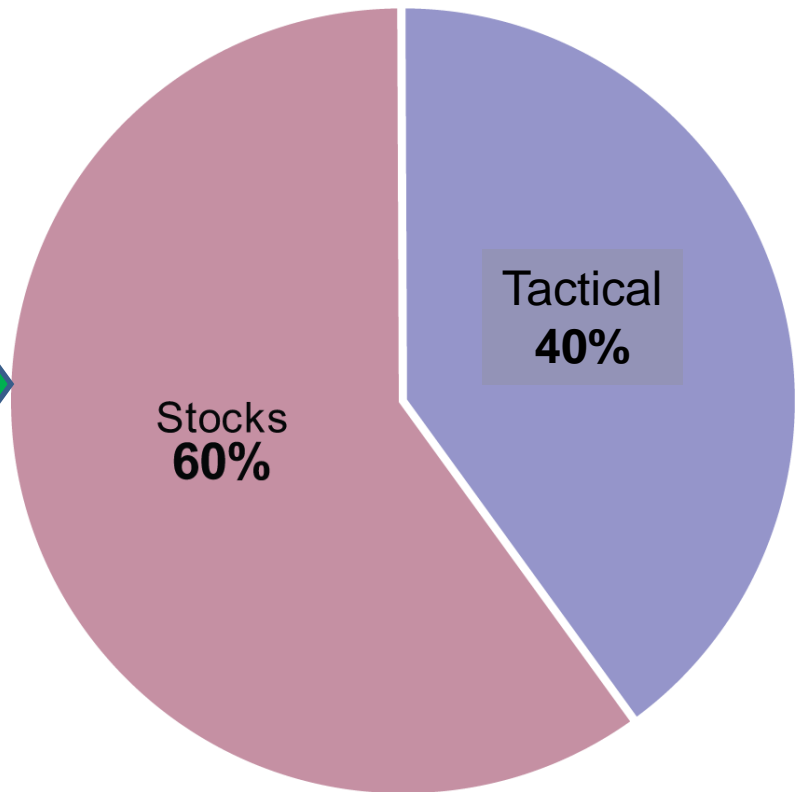
S&P 500

The Role of Alternatives

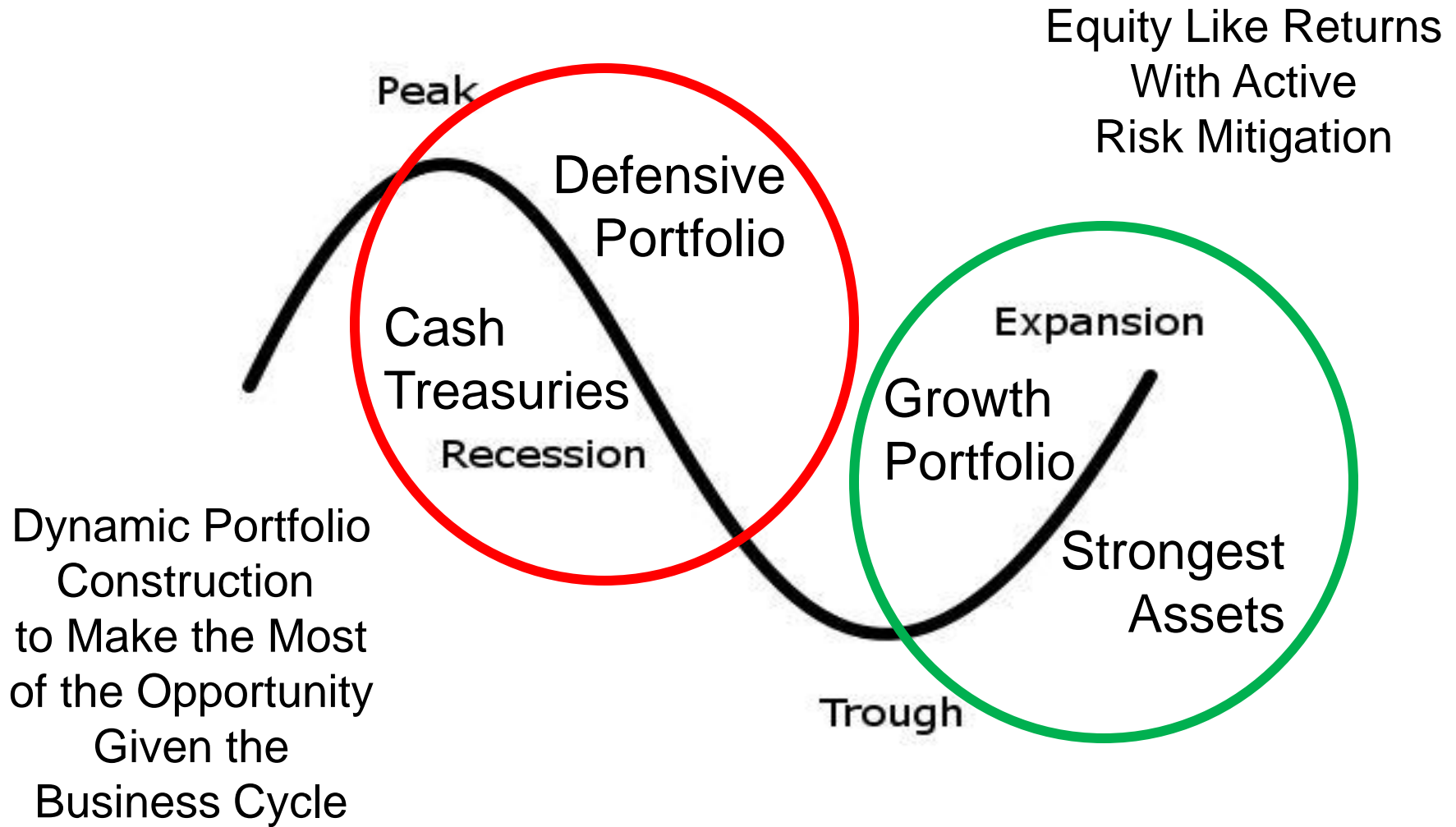
Traditional Portfolio
Construction



Alternative Portfolio
Construction



Managing Risk Through the



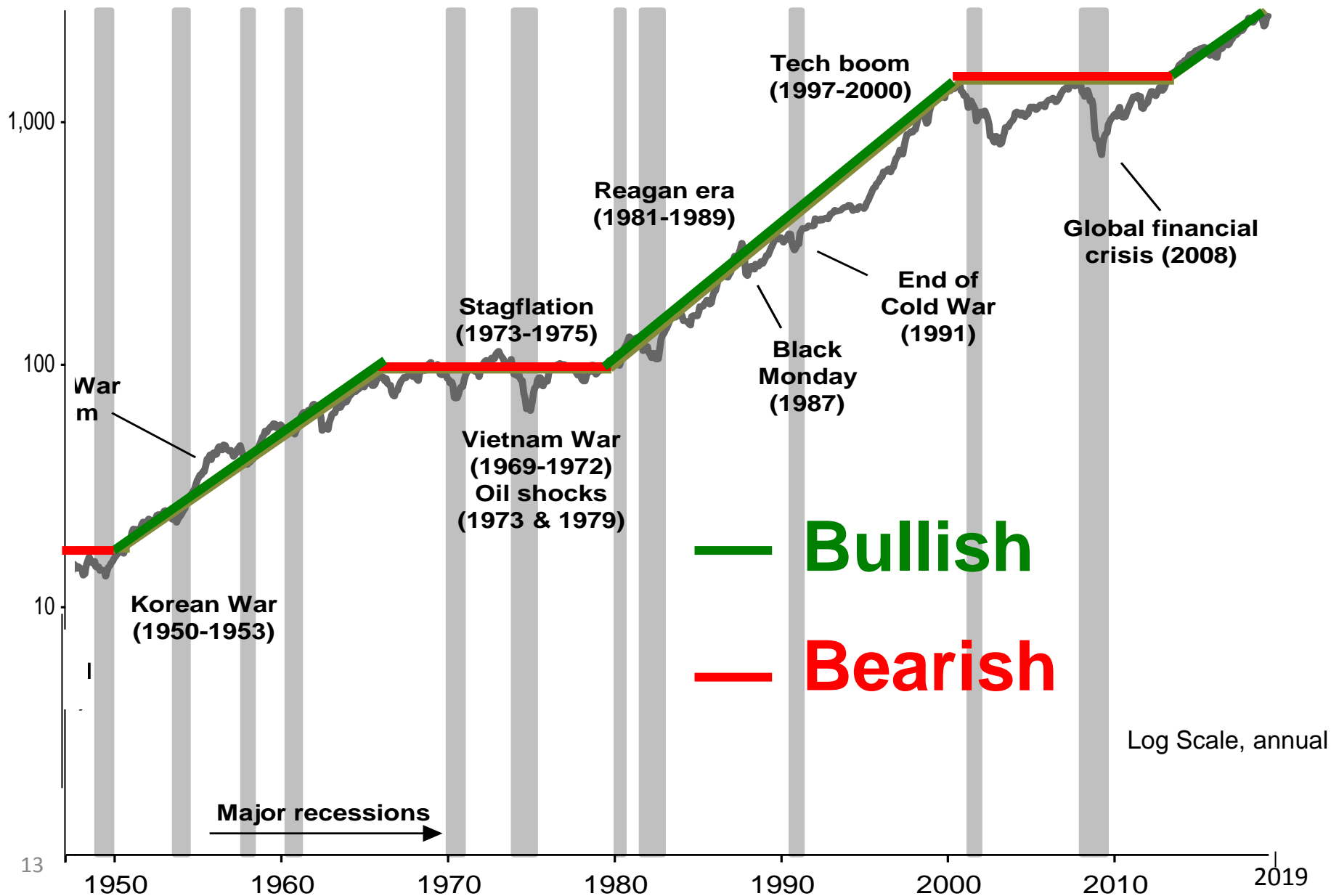
How bad is this bear going to get?

Two ways to think about the market:

1. How the market rises

2. How the market falls

Stock Market Stair-Steps Higher



Stock Market Drawdowns

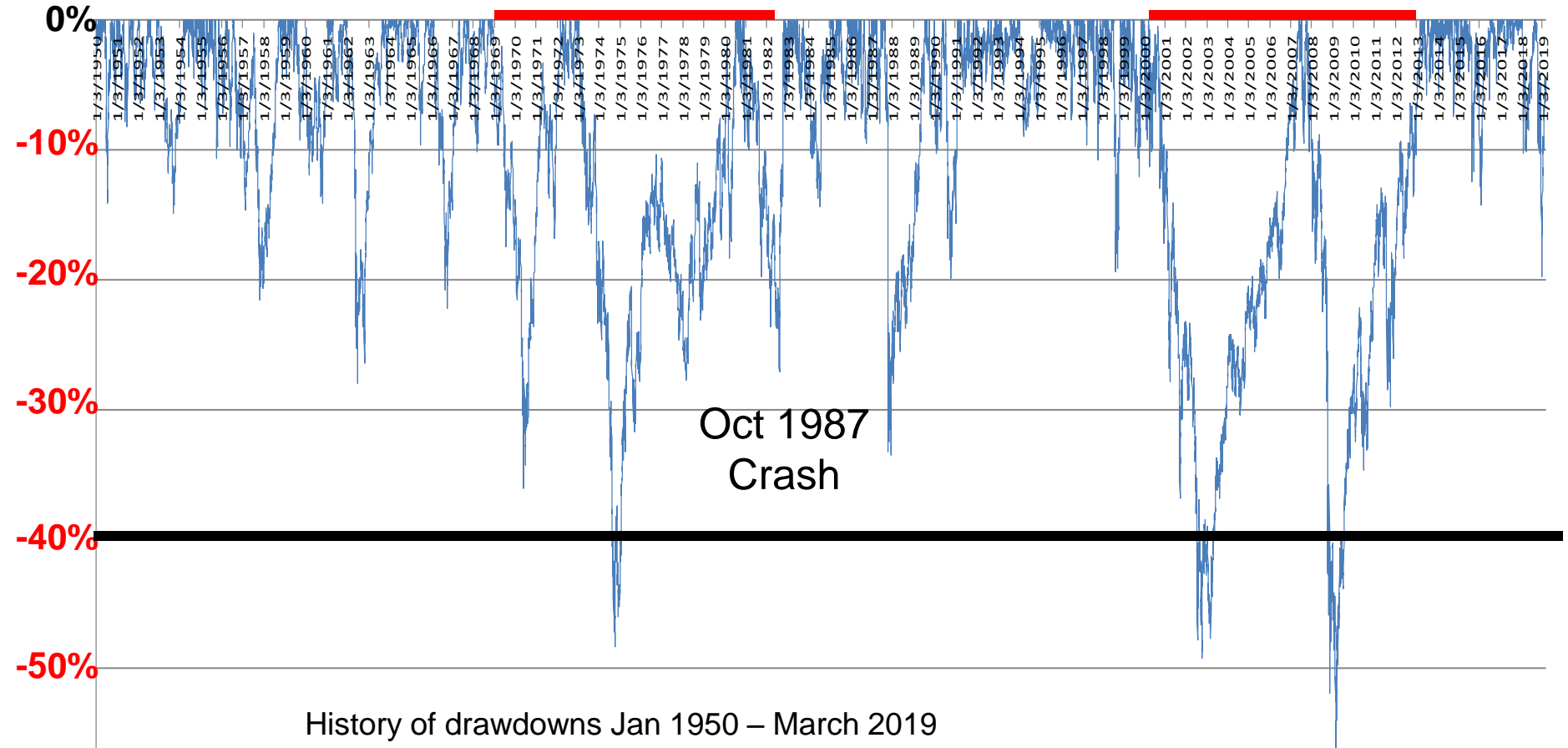
1950-1968
14.7%

1969-1979
4.5%

1980-1999
17.9%

2000-2013
4.1%

2013-
14.3%

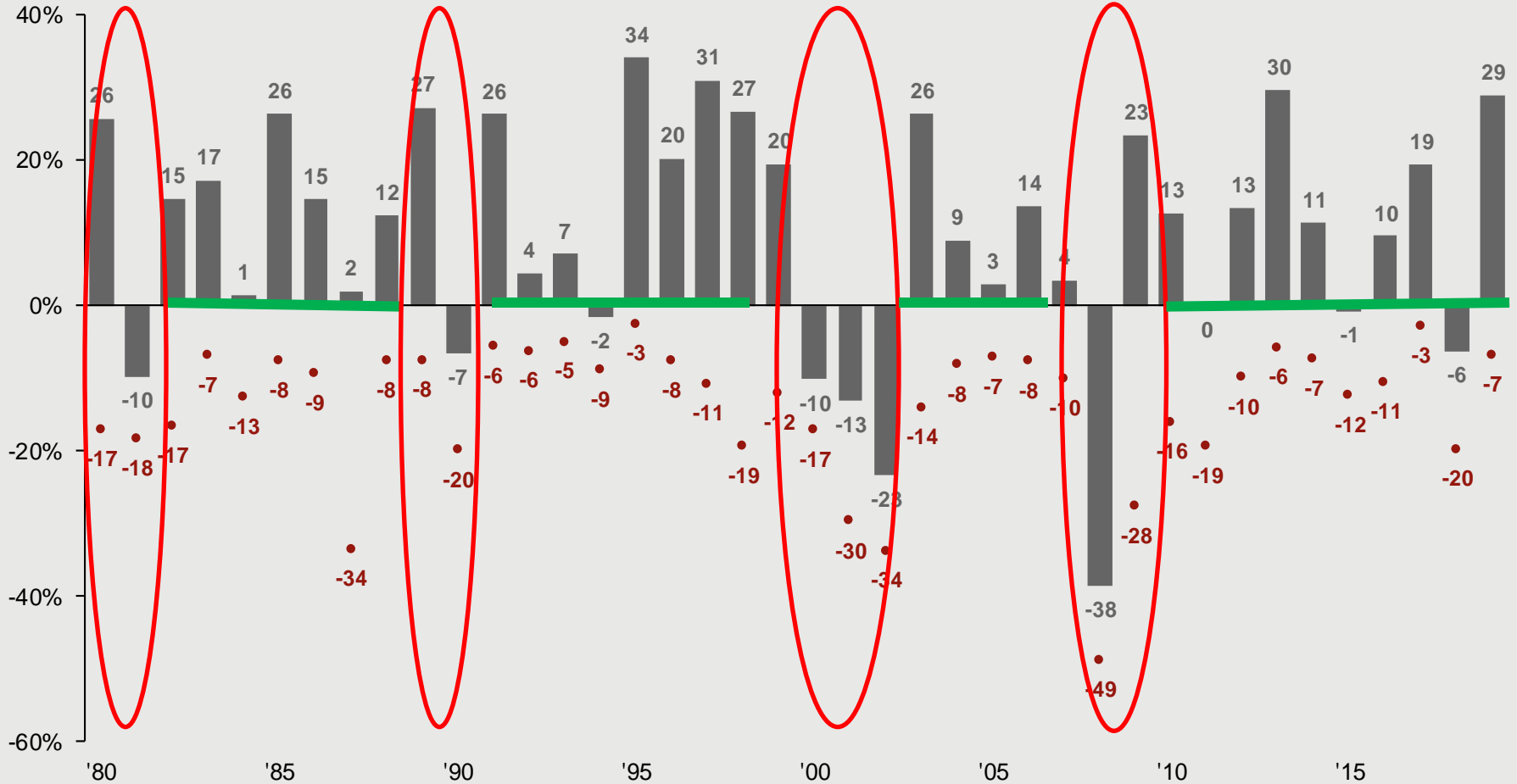


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S&P 500 Returns and

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 30 of 40 years



Source: JP Morgan Asset Management

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Quantifying Drawdowns & Recoveries

Drawdown %	Occurrences	AVG Days to Recovery	AVG Days of Decline
5-10	40	34	24
10-20	14	72	96
20-30	4	182	260
30-40	2	432	220
40+	3	1215	476

1/3/1950 – 7/8/2019, Days are trading days only

Importance of Recessions

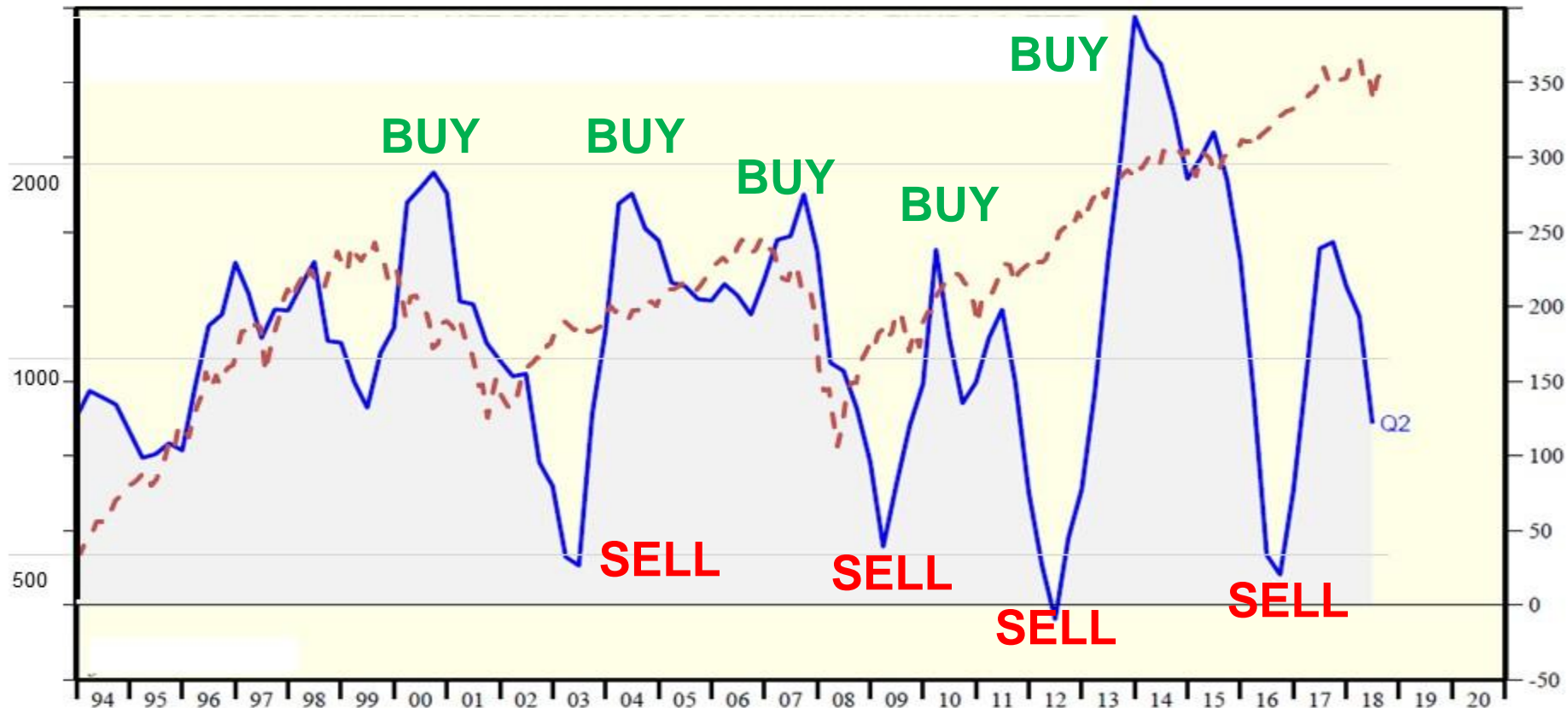
- The 3 pullbacks of > than 40% all occurred during recessions; 1973-74, 2000-02, 2007-09.
- The 2 pullbacks of 30-40% occurred outside of recessions. The most recent was “Black Monday” in October 1987. The S&P 500 declined by 33.5% from high to low but ended the year in positive territory and rallied another 12% the following year. The second instance was Nov. 1968 to Dec. 1970. 1968 and 1970 were positive calendar years. 1969 the S&P 500 declined by –11.4%
- The average time to recovery on the remaining pullbacks is 3 months.

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What We Are Trying To Avoid

Net Stock Purchases by Mutual Funds & ETFs

(Billion Dollars, Four Quarter Sum Right Axis, S&P 500 In Orange Logarithmic Scale Right Axis)



Source: Federal Reserve Board Flow of Funds Accounts, yardeni.com

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What We Are Trying To Avoid

Asset Class	Total Ret Annlzd 5 Yr (Mo-End) Base Currency %	Investor Ret Annlzd 5 Yr (Mo-End) %	Performance Declines as Volatility Rises
Emerging Mkts	2.86	1.47	51%
US Fund Small Growth	8.27	5.83	71%
US Fund Large Blend	8.80	7.74	88%

Source: Resolute Managers

Market Correction Head-Fakes

Since WW2, 70% of the market corrections – down more than 10% but less than 20% - were not followed by a recession. As a leading indicator of recessions, the stock market has a very poor track record.

Avoiding Recessions

1. Leading Economic Index
2. Treasury Yield Curve

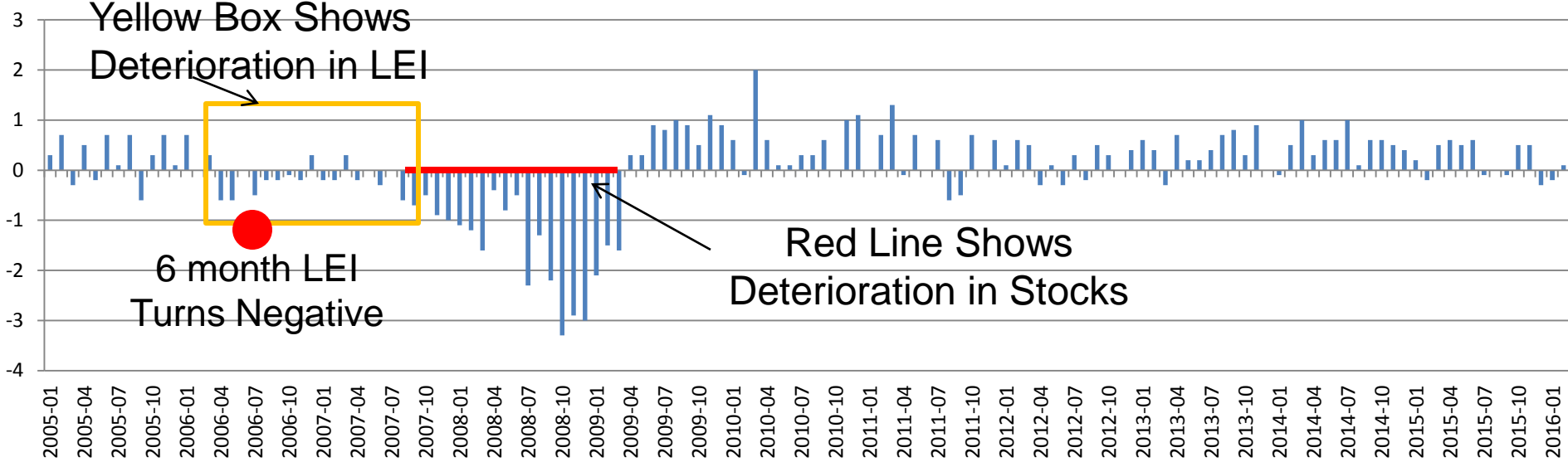
Leading Economic Index (LEI)

The Ten Components of The Conference Board Leading Economic Index® for the U.S. Include:

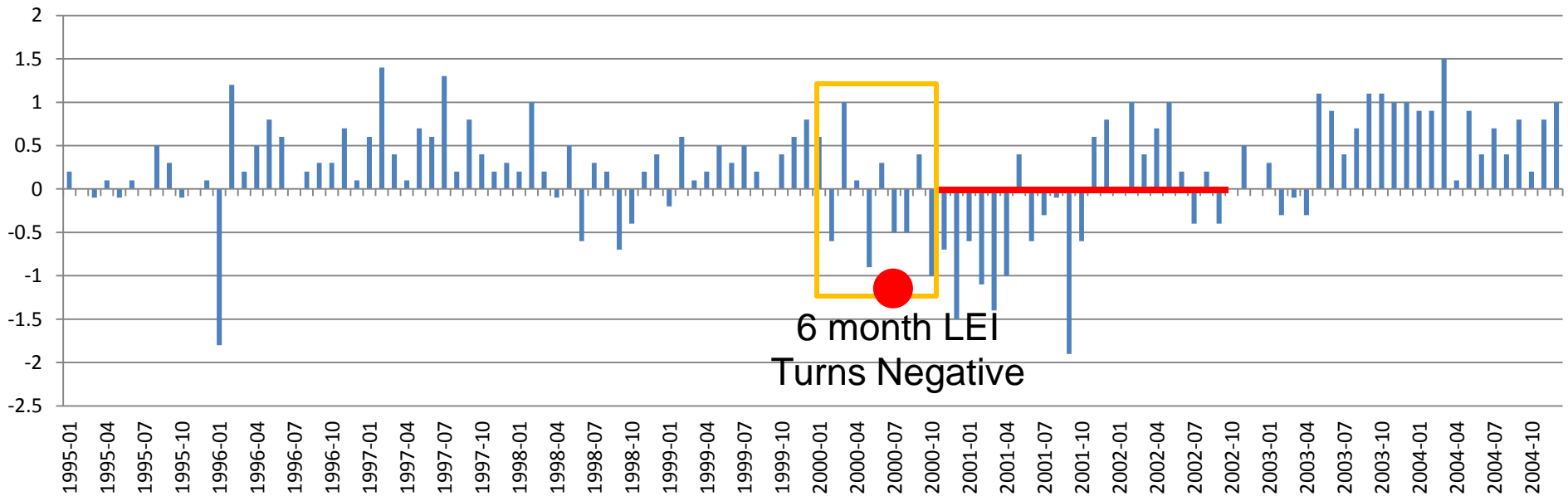
1. Average weekly hours, manufacturing
2. Average weekly initial claims for unemployment insurance
3. Manufacturers' new orders, consumer goods and materials
4. ISM® Index of New Orders
5. Manufacturers' new orders, nondefense capital goods excluding aircraft orders
6. Building permits, new private housing units
7. Stock prices, 500 common stocks
8. Leading Credit Index™
9. Interest rate spread, 10-year Treasury bonds less federal funds
10. Average consumer expectations for business conditions

Leading Economic Index (LEI) % Change Monthly January 2005 through February 2016

(Updated Monthly)

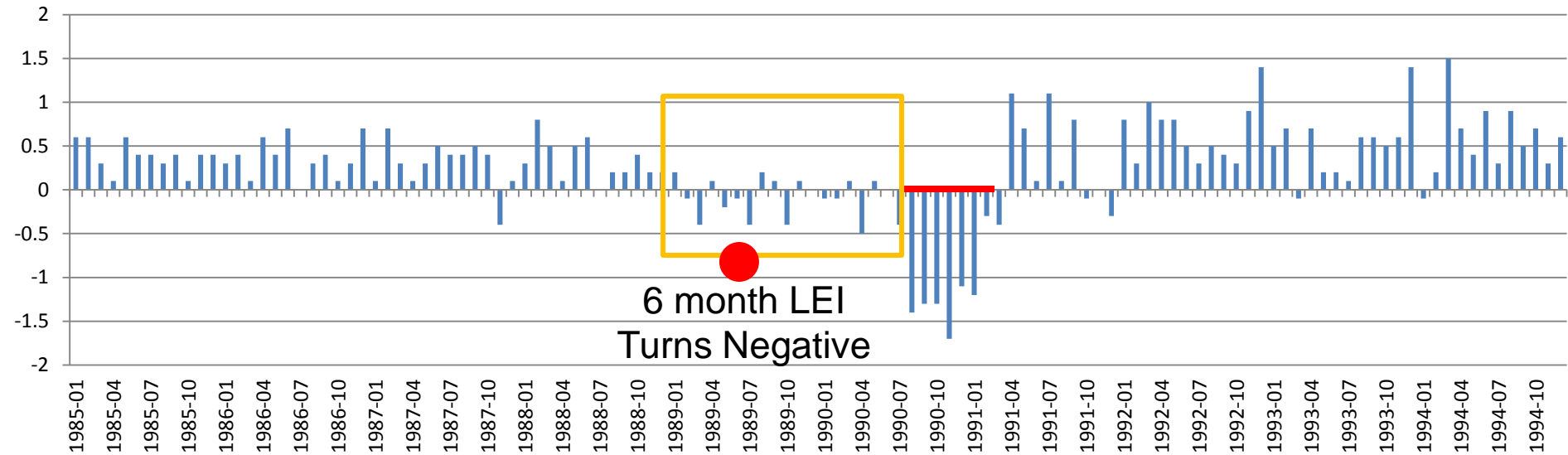


January 1995 through December 2004

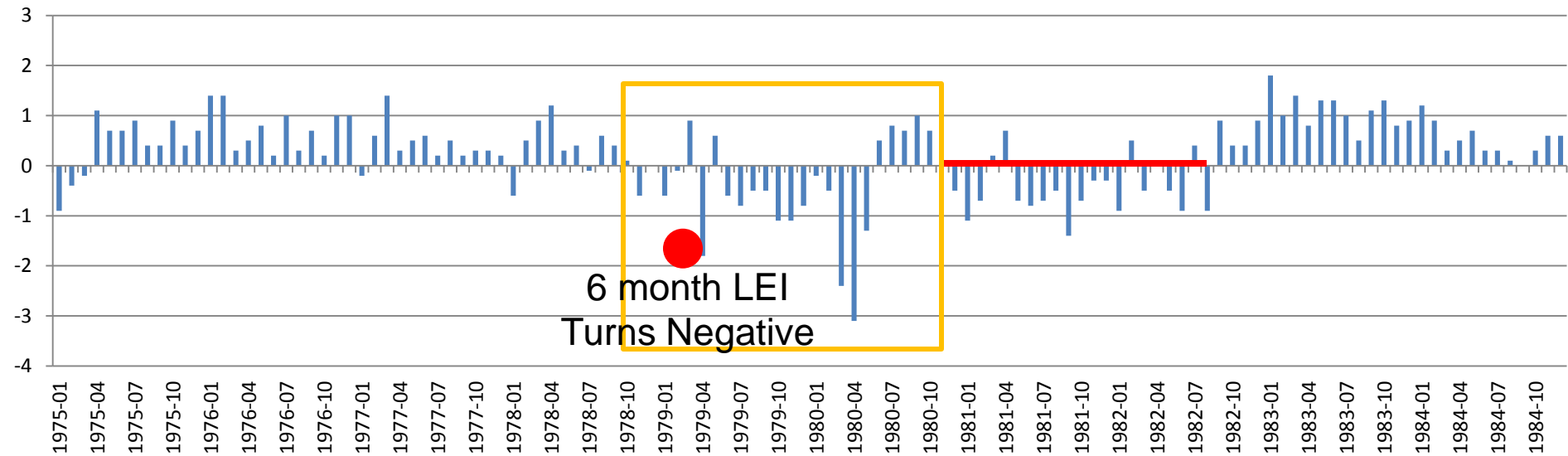


Leading Economic Index % Change Monthly

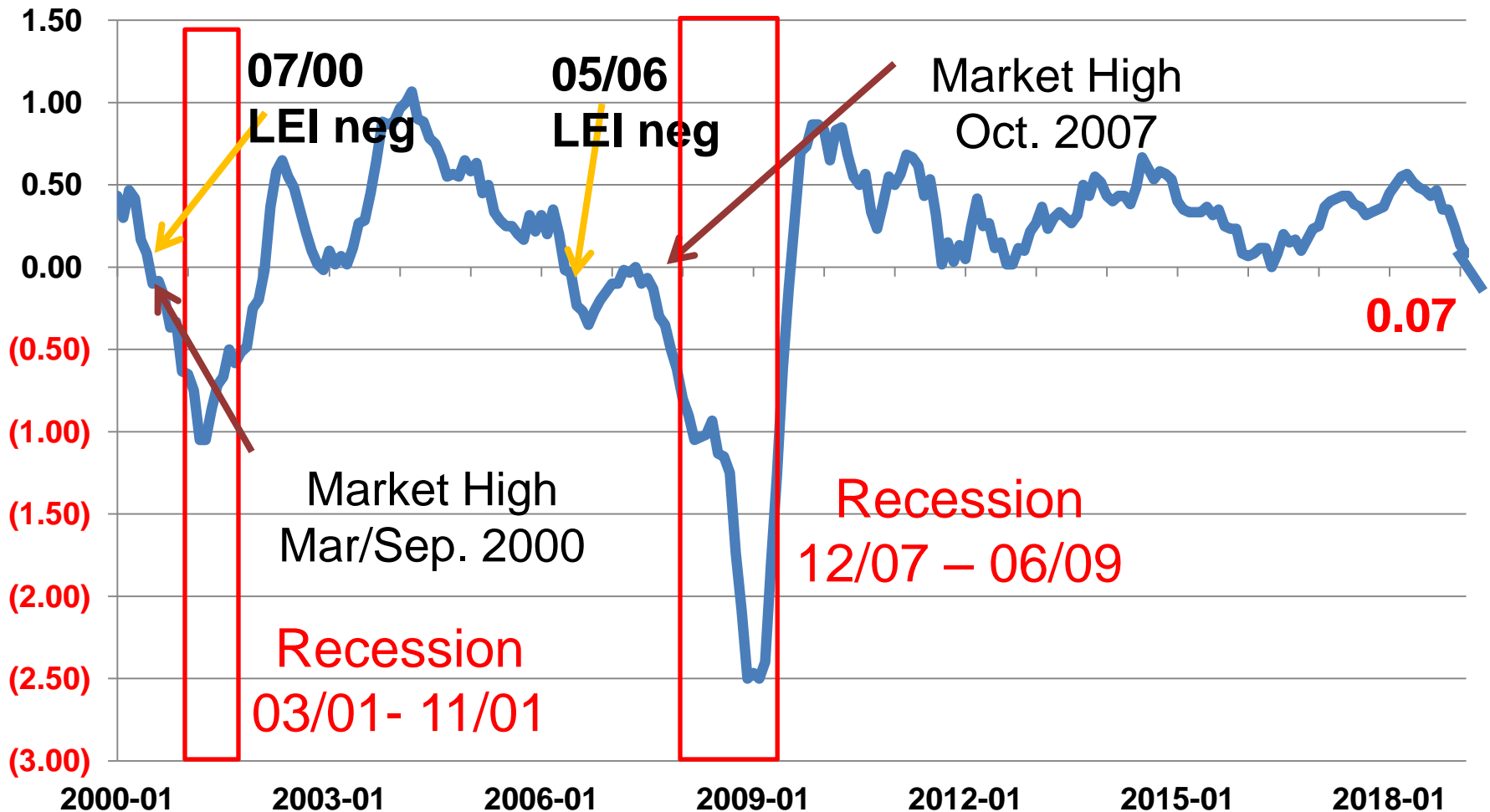
January 1985 through December 1994



January 1975 through December 1984



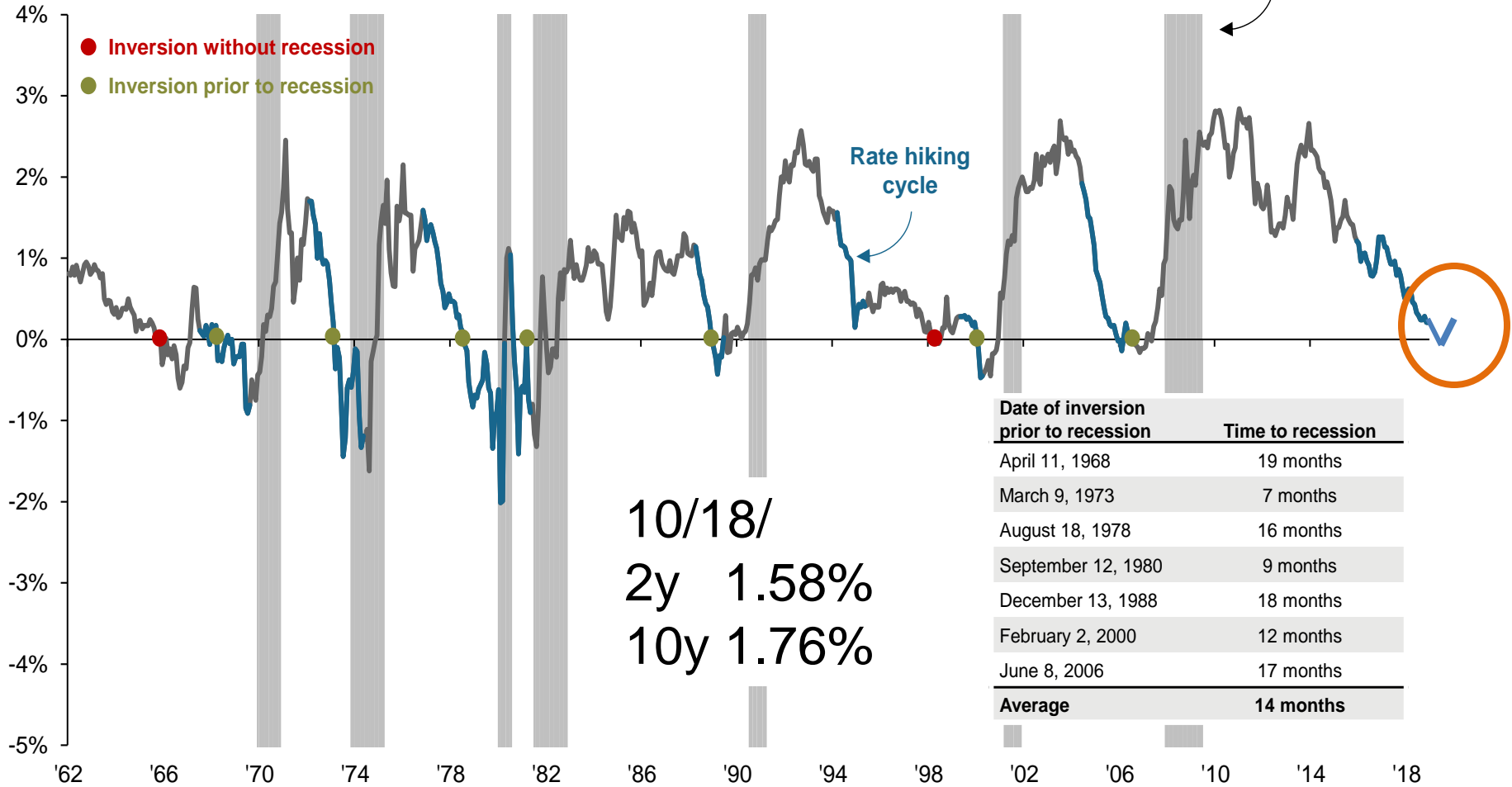
LEI 6-Month Moving Average



Yield Curve: 10-yr. less 2-yr. Rate

U.S. yield curve steepness

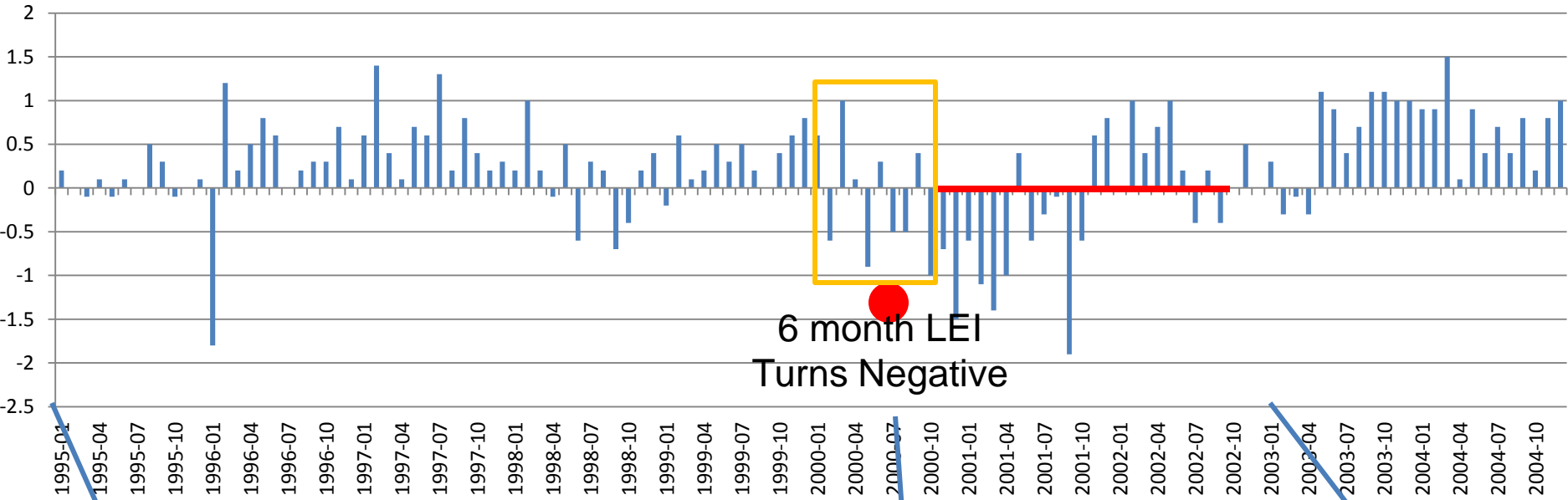
Short-term yield versus long-term yield spread*



Source: JP Morgan Asset Management

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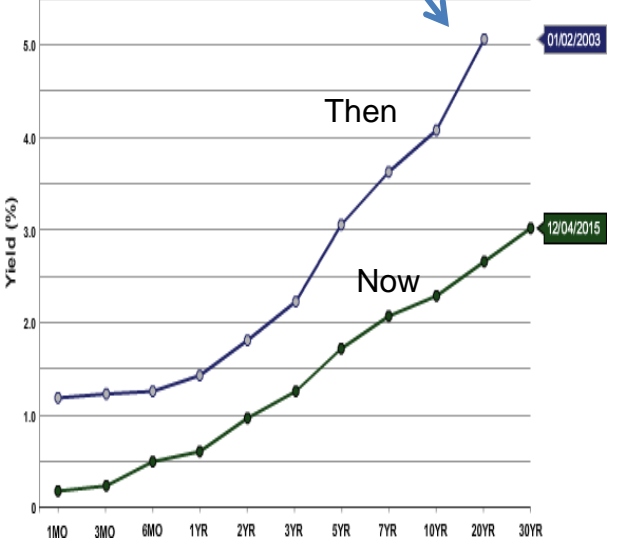
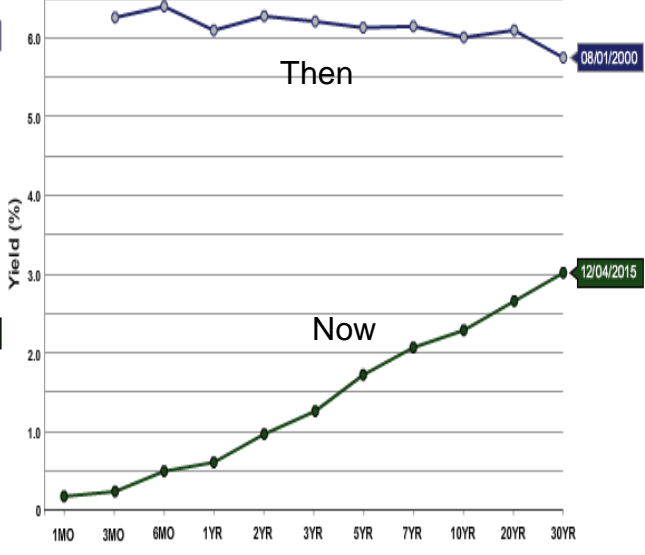
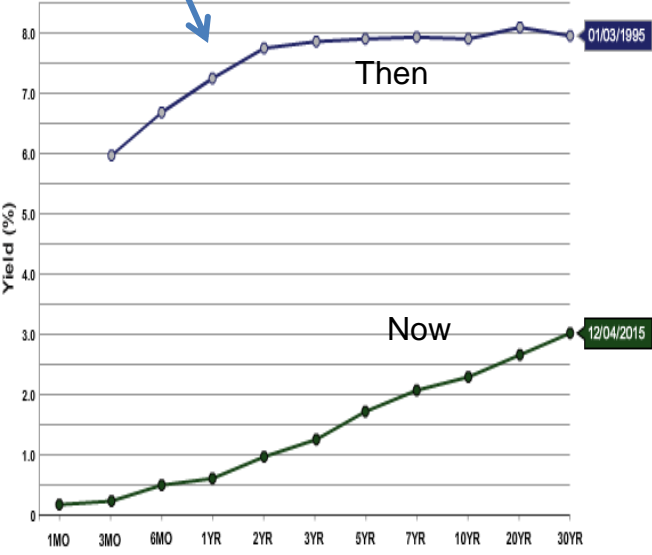
Leading Economic Index % Change Monthly Change in the U.S. Treasury Yield Curve



Jan 1995

Aug 2000

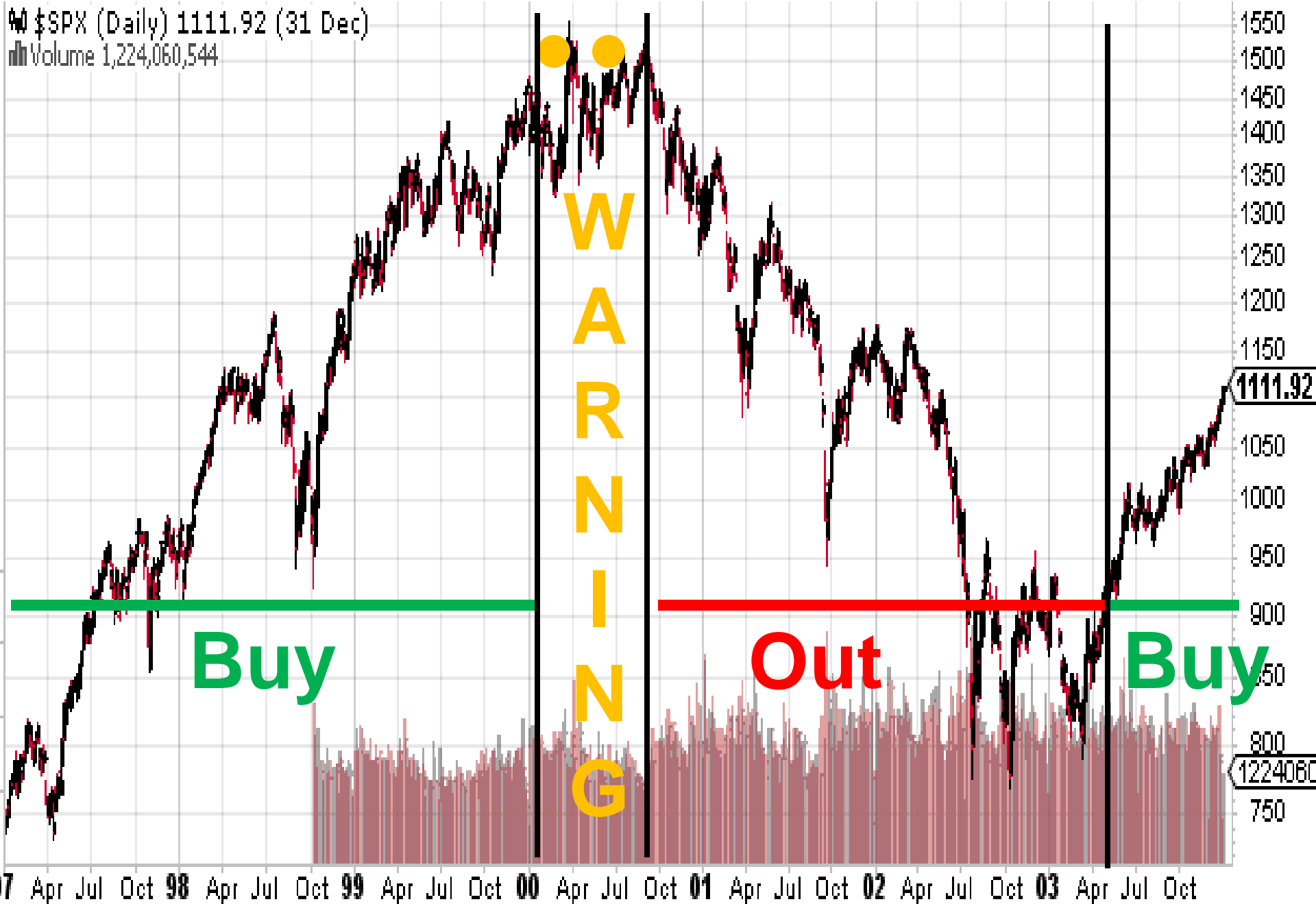
Jan 2003



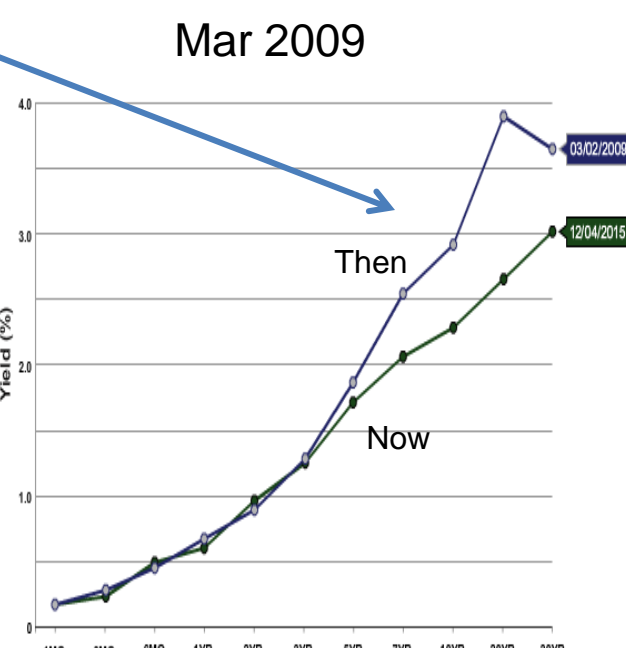
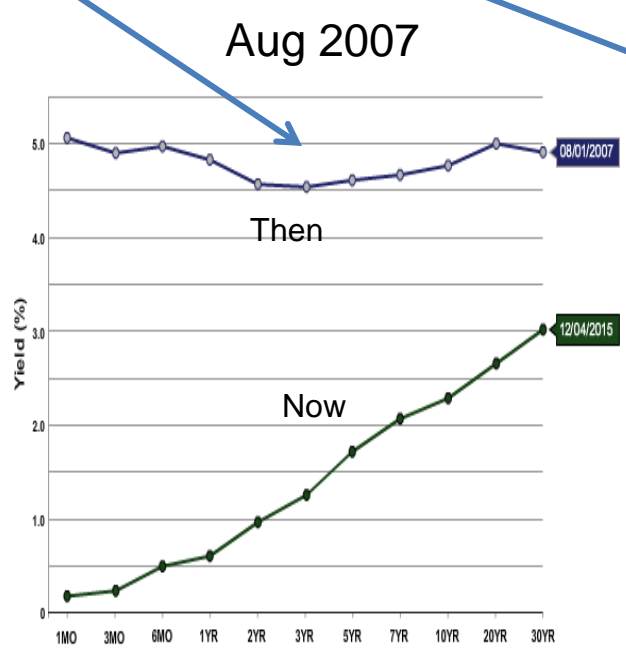
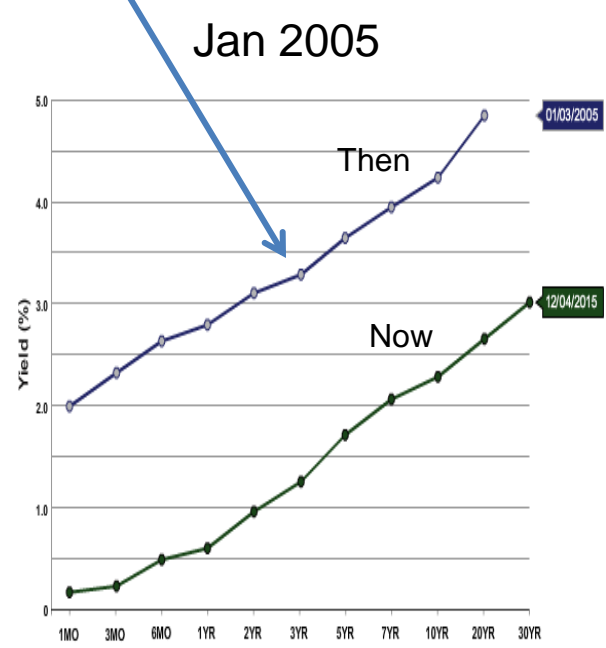
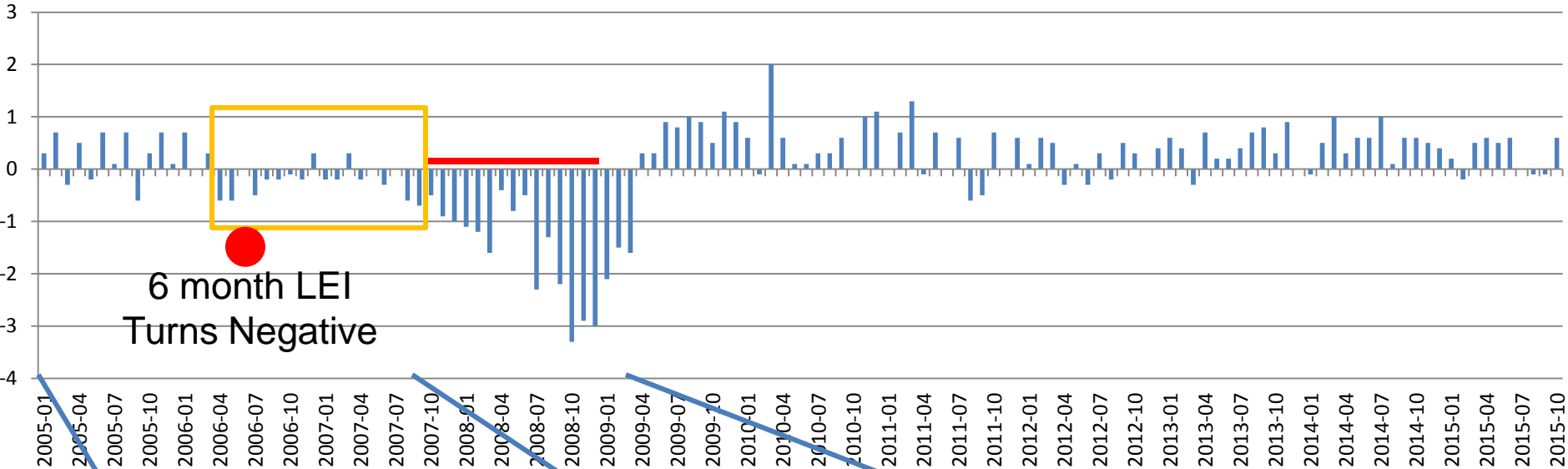
S&P 500 Index '97 – '04

\$SPX (Daily) 1111.92 (31 Dec)

Volume 1,224,060,544

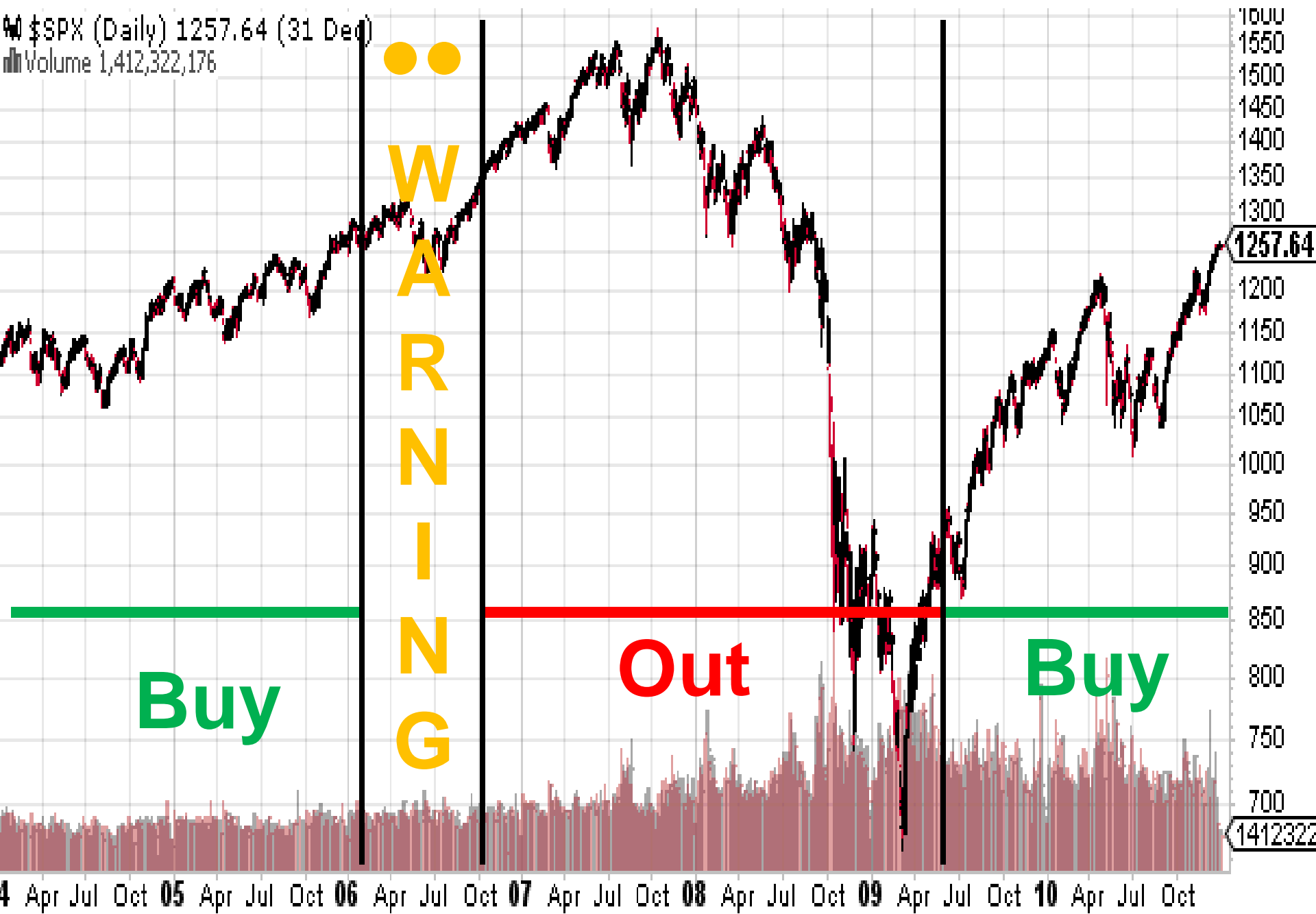


Leading Economic Index % Change Monthly Change in the U.S. Treasury Yield Curve



S&P 500 Index '04 – '10

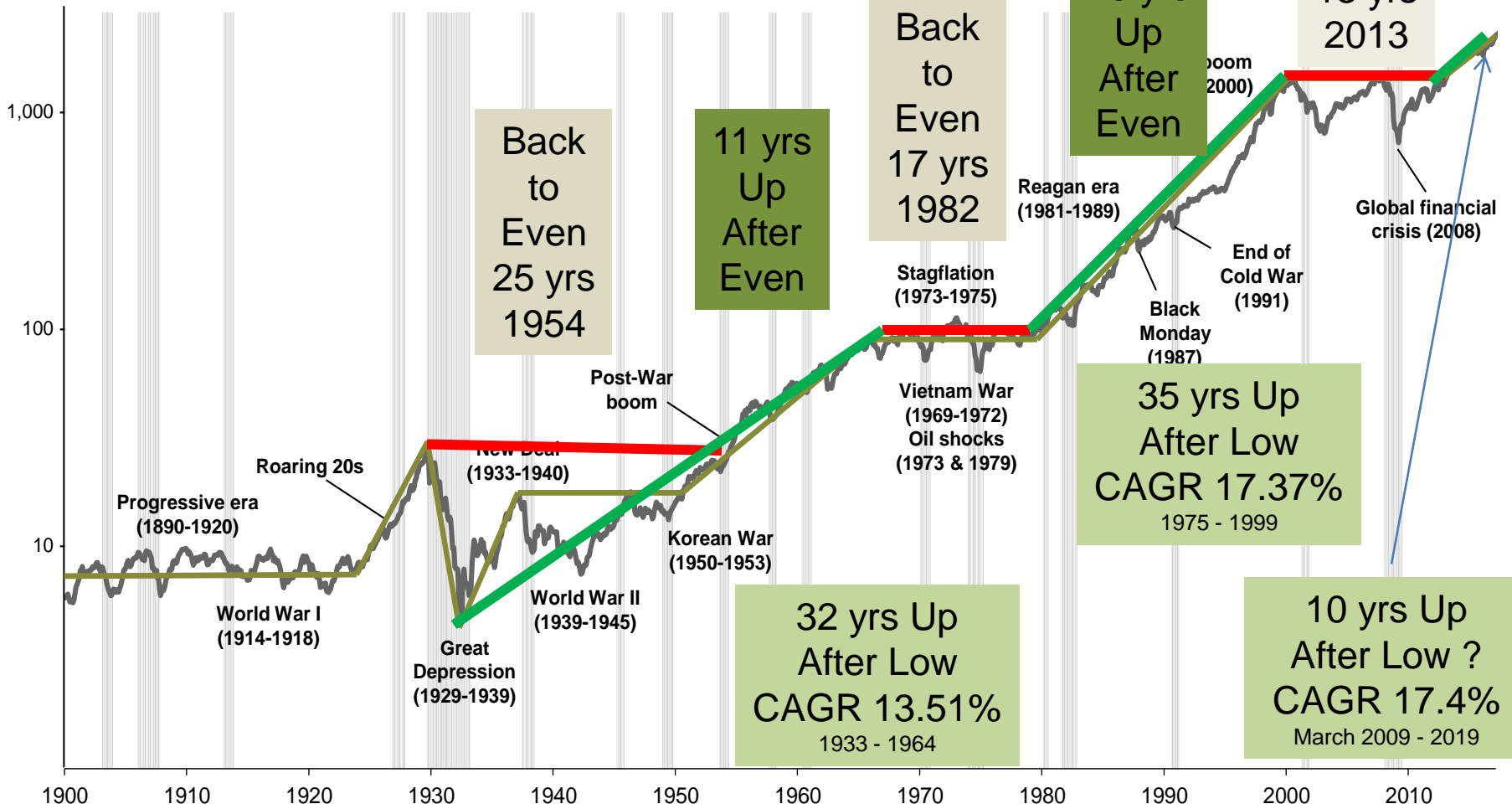
\$SPX (Daily) 1257.64 (31 Dec)
Volume 1,412,322,176



Up Years After Breakeven

S&P Composite Index

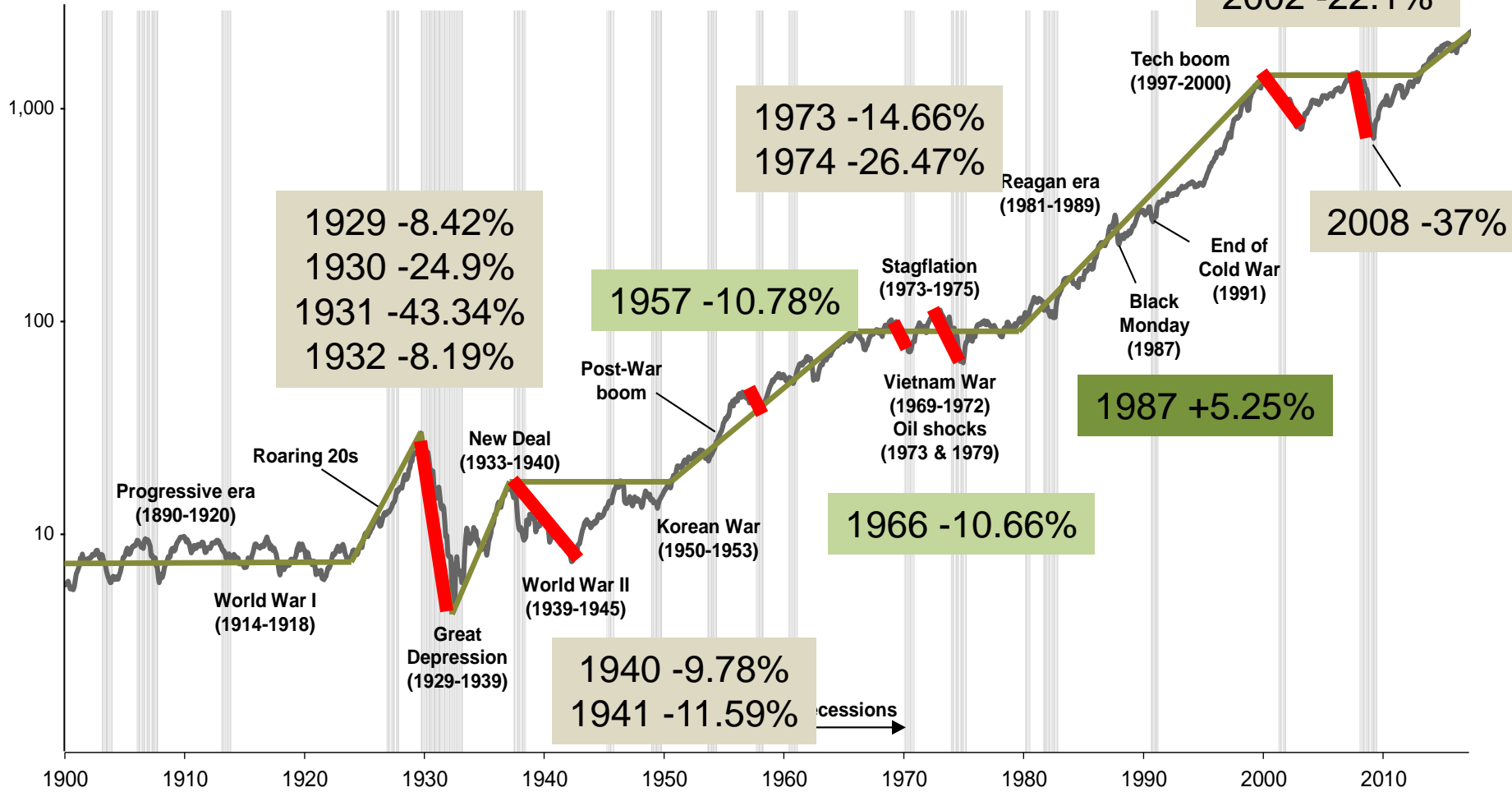
Log scale, annual



Losses Concentrated

S&P Composite Index

Log scale, annual



Where Are We Today?

What does the LEI and Yield Curve say about the market today?

What other factors do we see?

Performance: Style & Size

4Q 2019

	Value	Blend	Growth
Large	7.4%	9.1%	10.6%
Mid	6.4%	7.1%	8.2%
Small	8.5%	9.9%	11.4%

2019

	Value	Blend	Growth
Large	26.5%	31.5%	36.4%
Mid	27.1%	30.5%	35.5%
Small	22.4%	25.5%	28.5%

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Valuation

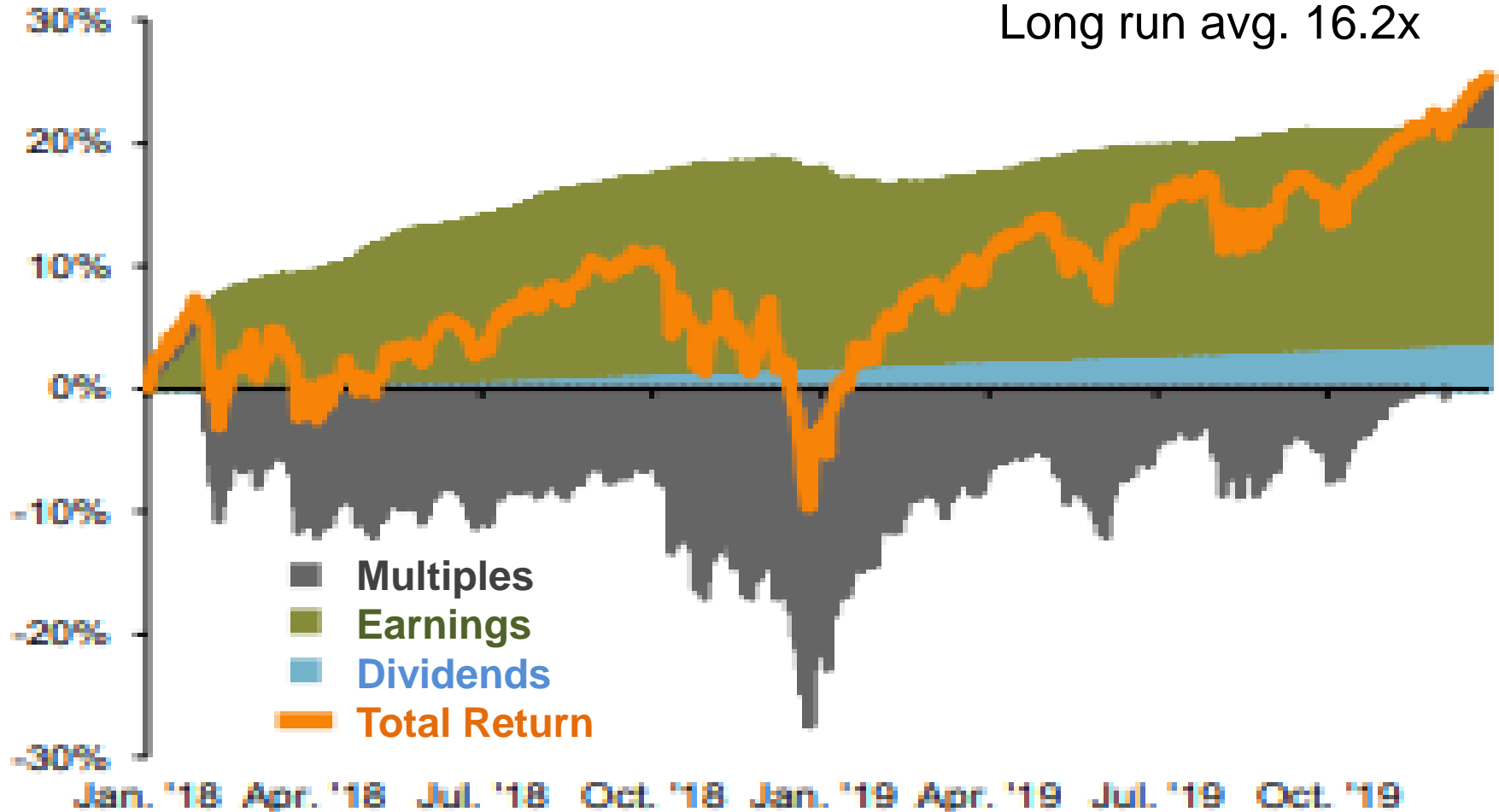
S&P 500 Index: Forward P/E ratio



Source: JP Morgan Asset Management, FactSet, Robert Shiller, Standard & Poor's, Thomson Reuters

2018 – 2019 In Review

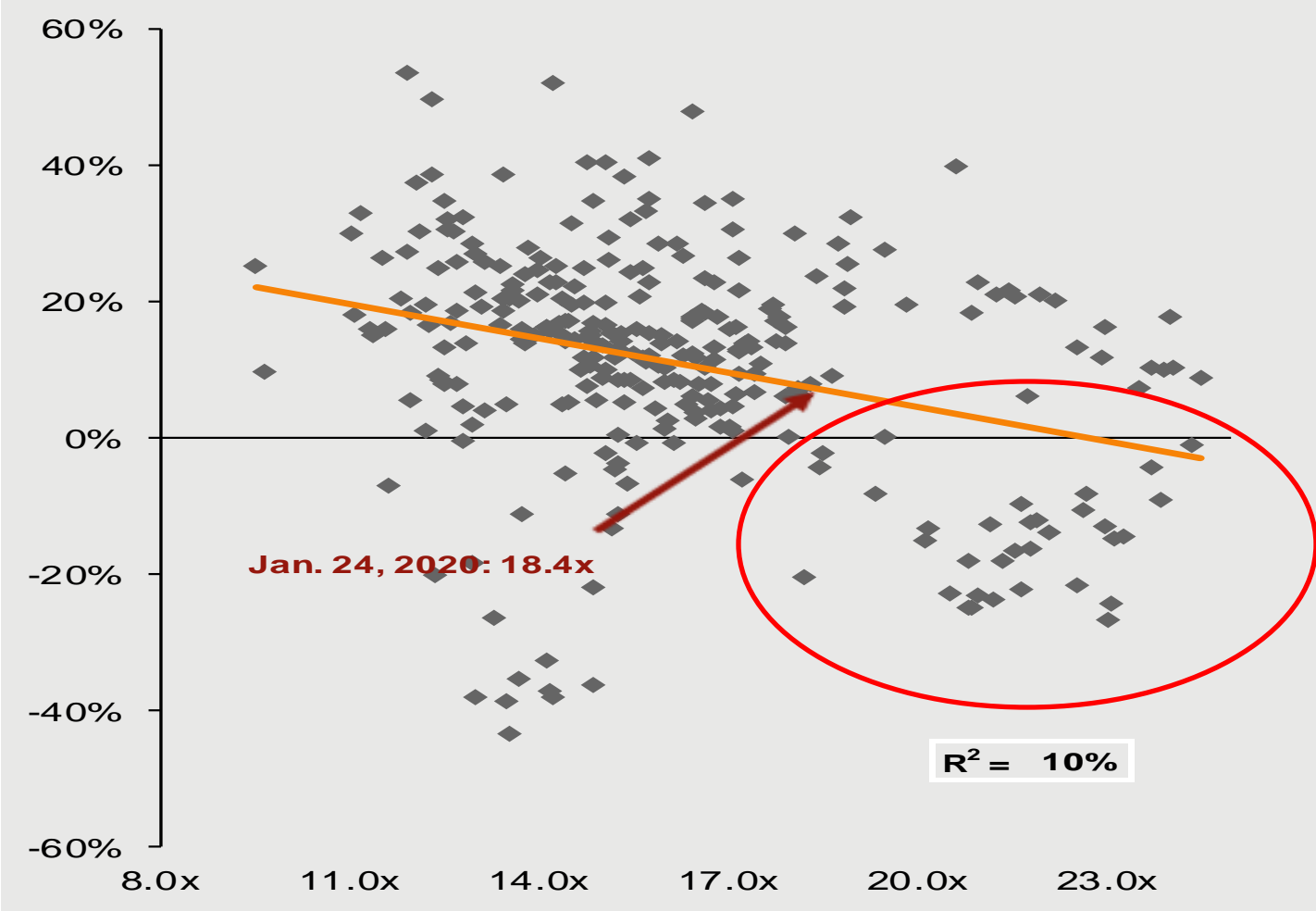
Forward P/E 18x
Long run avg. 16.2x



Valuation

Forward P/E and subsequent 1-yr. returns

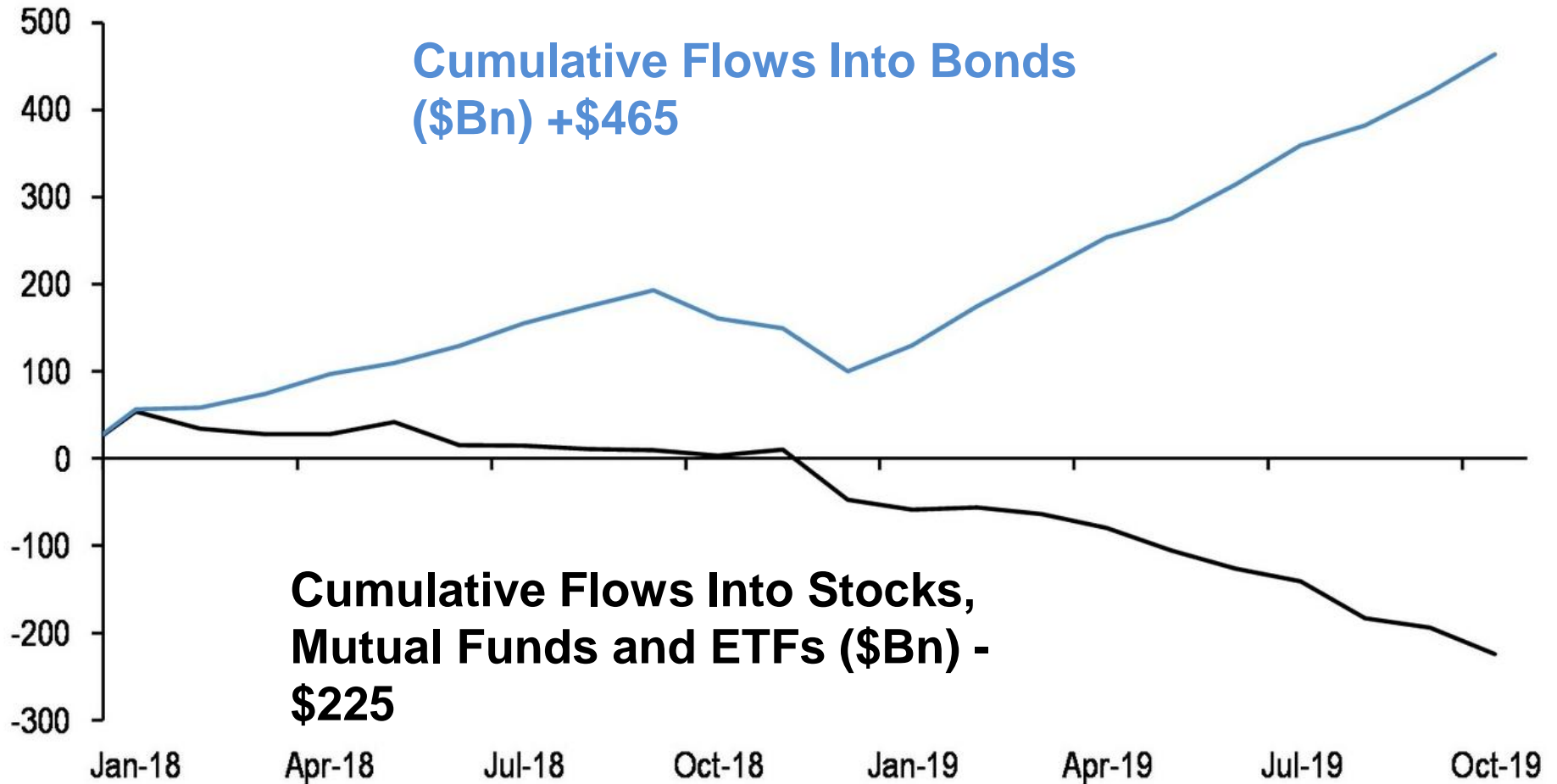
S&P 500 Total Return Index



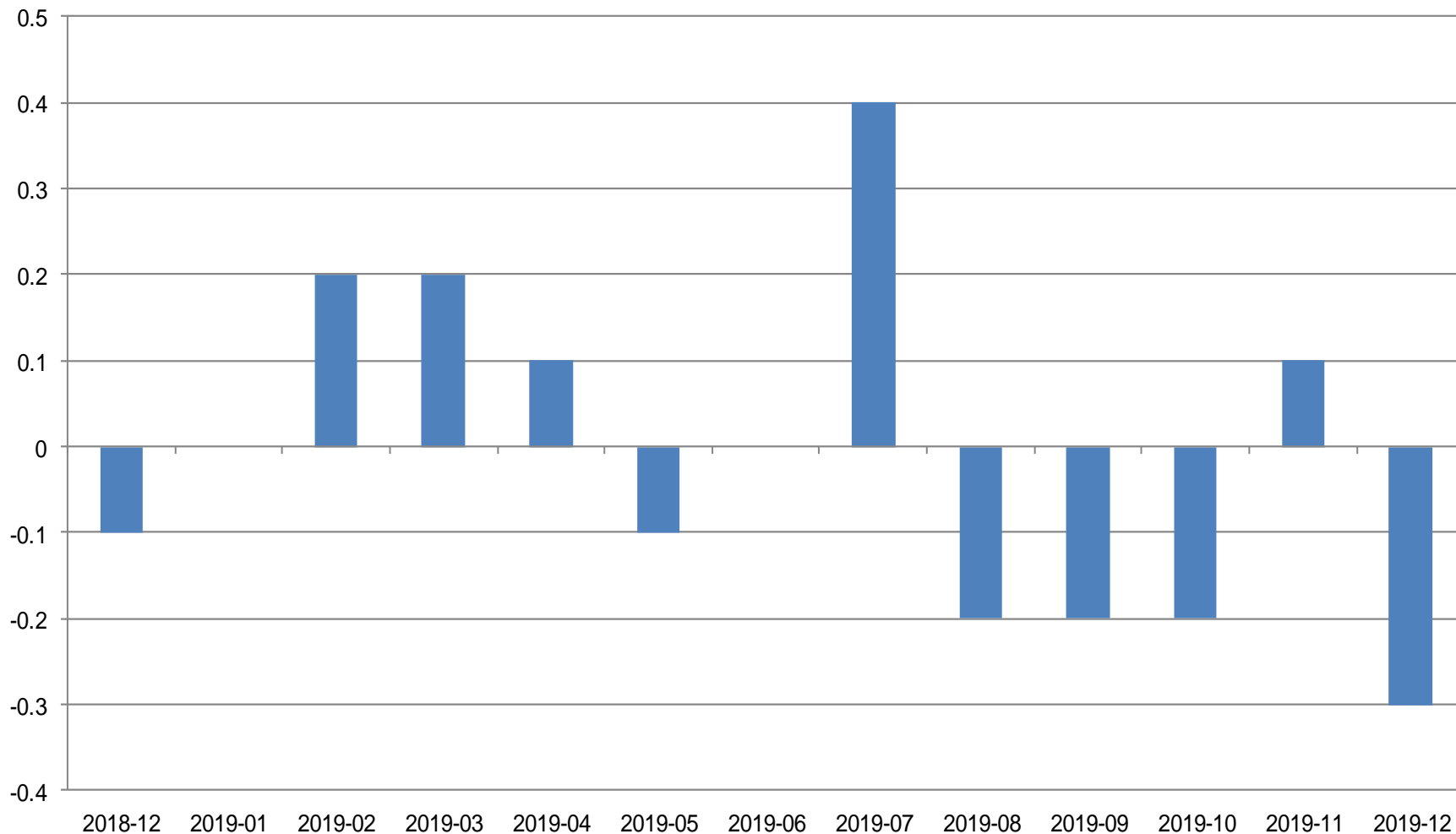
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Source: JP Morgan Asset Management, FactSet, Robert Shiller, Standard & Poor's, Thomson Reuters

Cumulative Fund Flows



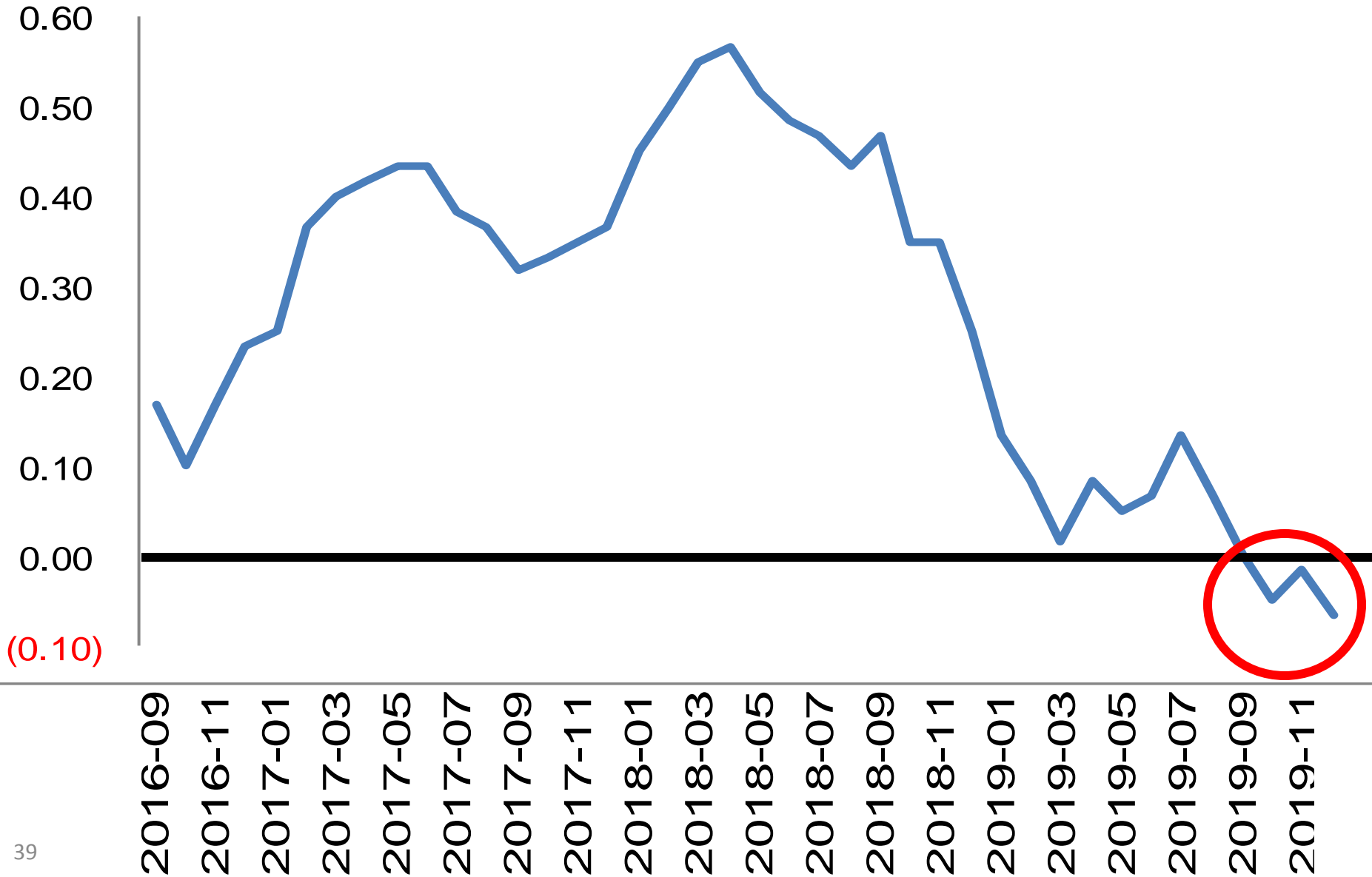
% Change LEI Monthly



Source: The Conference Board

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Leading Economic Index



Leading Economic Index Factors



Other Positives

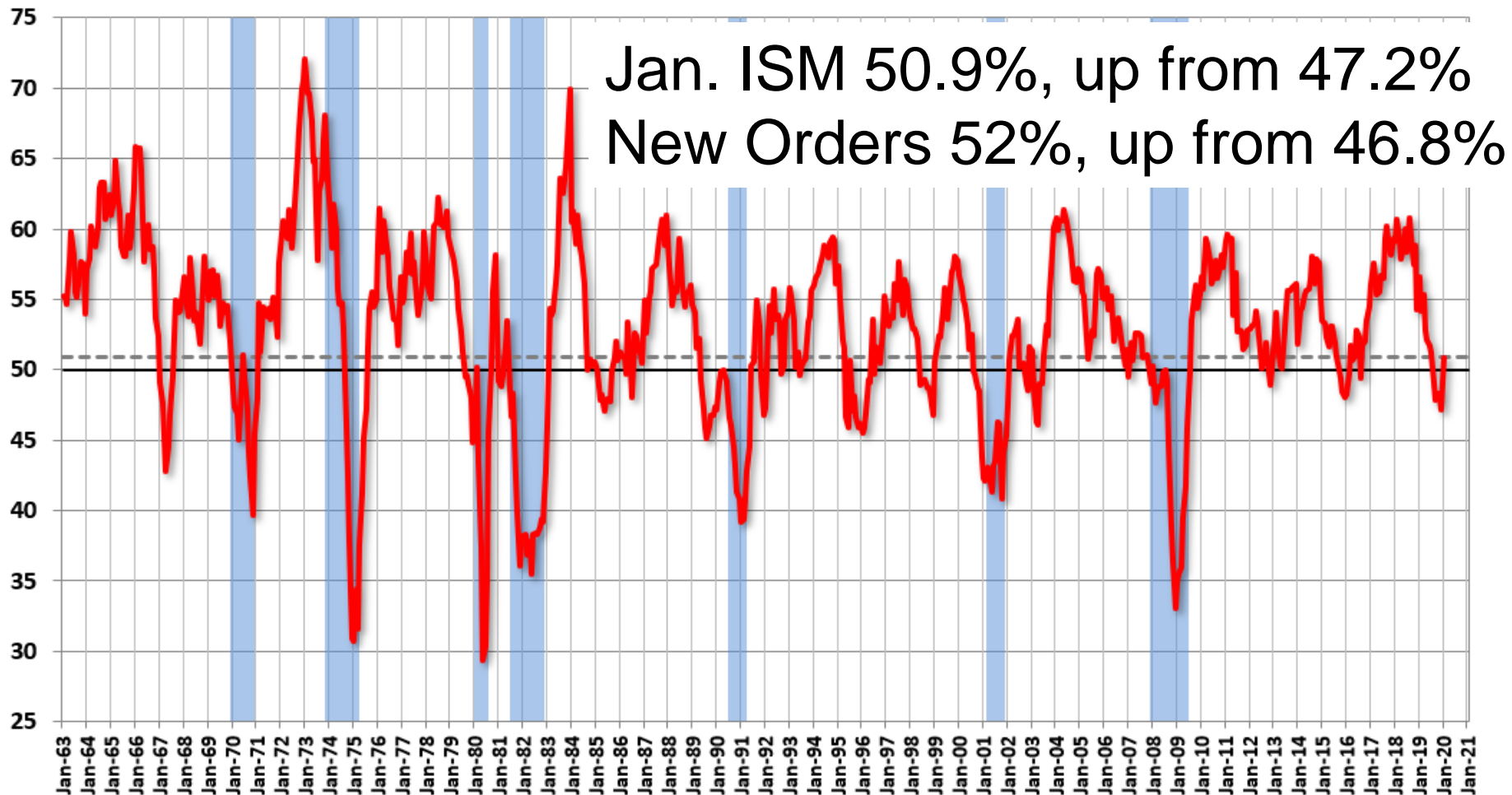
48,000 UAW workers went on strike at GM from September 15, 2019 to the end of October. During the strike, production was stopped at 30 GM factories costing an estimated \$50 million to \$100 million per day. GM has about 17% market share in the global automotive industry.

Boeing stopped production of the 737 Max. Boeing is the largest U.S. manufacturing exporter. The size of the impact of Boeing's production halt represents roughly 70% of the economic output of the entire U.S. farm sector and may reduce first quarter U.S. GDP by 0.5%. One half of a percent is a significant reduction of growth when total growth is only 2%.

Other Positives

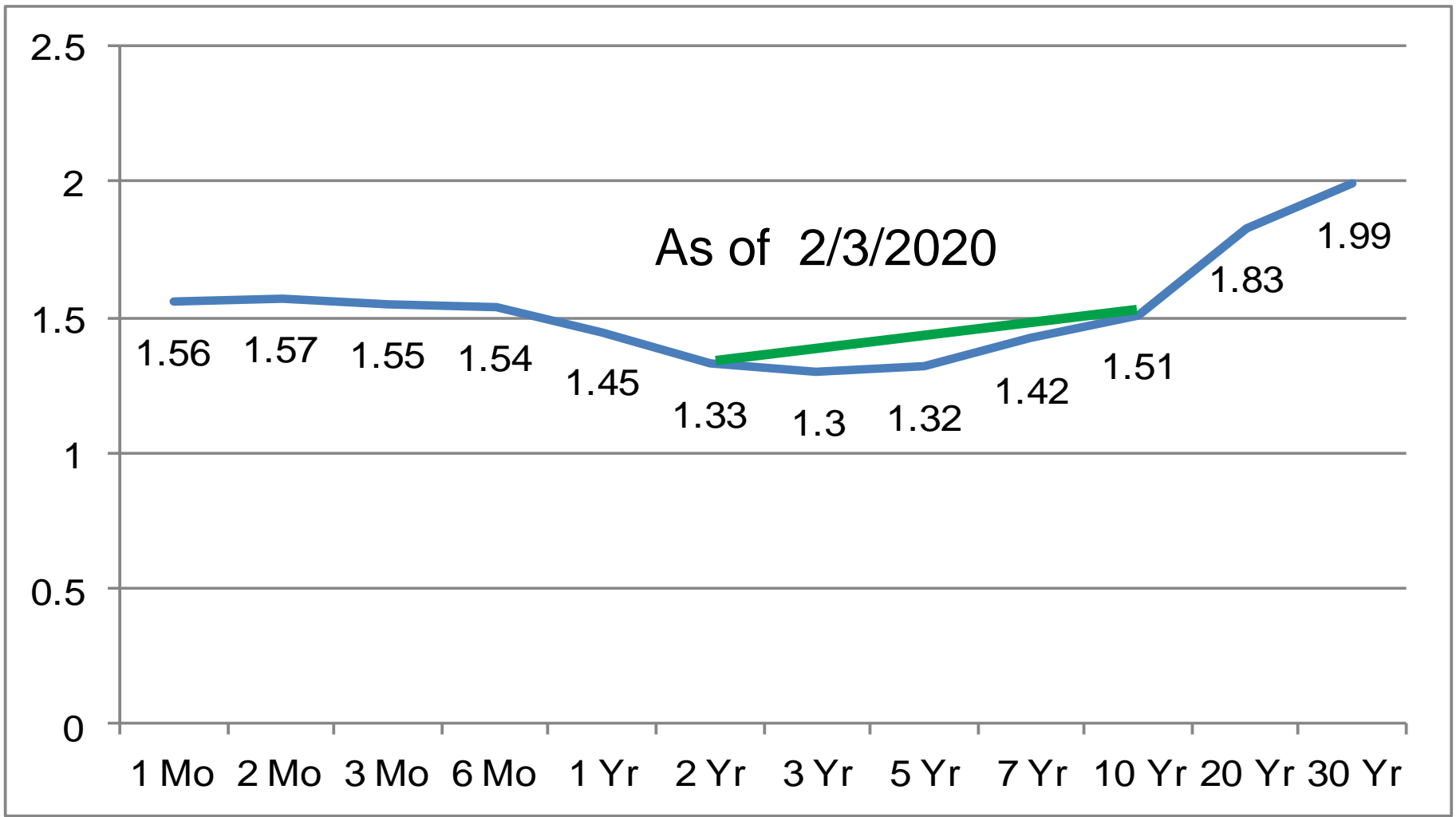
Institute for Supply Management PMI

Recession Expansion / Contraction Current ISM PMI



<http://www.calculatedriskblog.com/>

Treasury Yield Curve



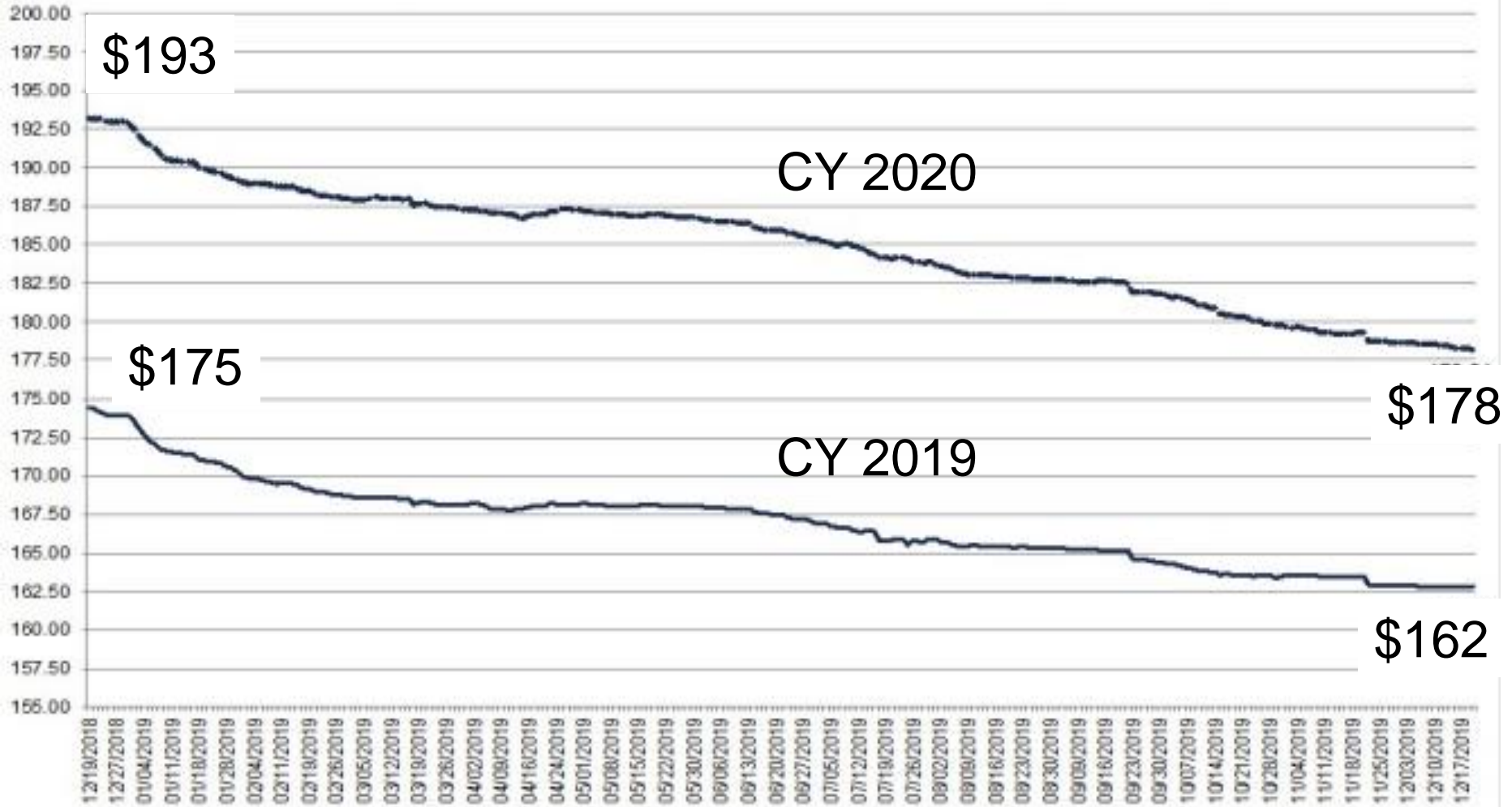
Source: JP Morgan Asset Management

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Stock Market Valuation Model

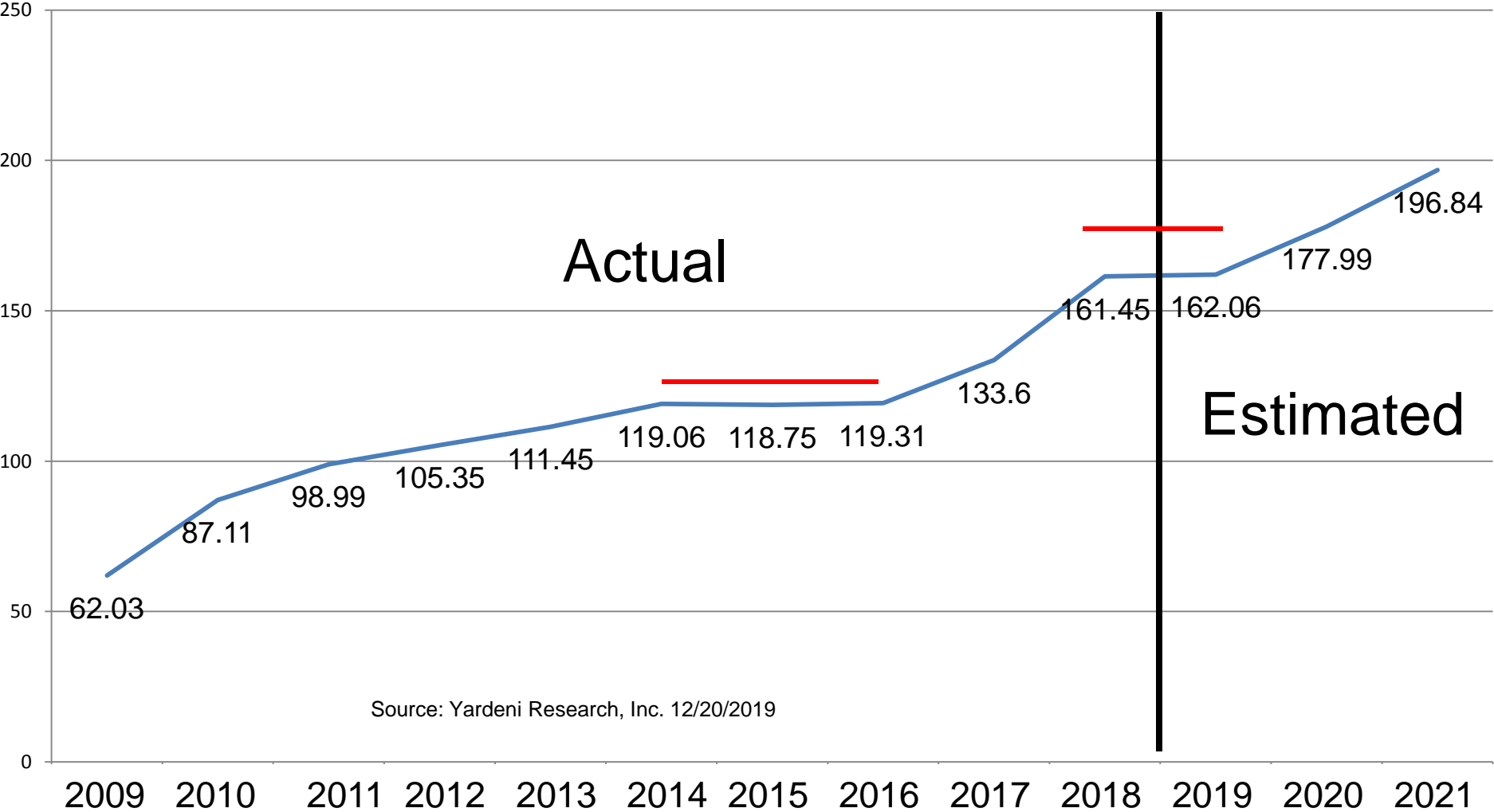
$$\text{Stock Prices} = \frac{\text{Future Earnings (est.)}}{\text{Risk-Free Rate} + \text{Risk Premium (anxiety, uncertainty)}}$$

Earnings Revisions



← 2019 → DELTA INVESTMENT MANAGEMENT

S&P 500 Earnings



Source: Yardeni Research, Inc. 12/20/2019

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Risk-Free Rate

1-Month U.S. Treasury Rate

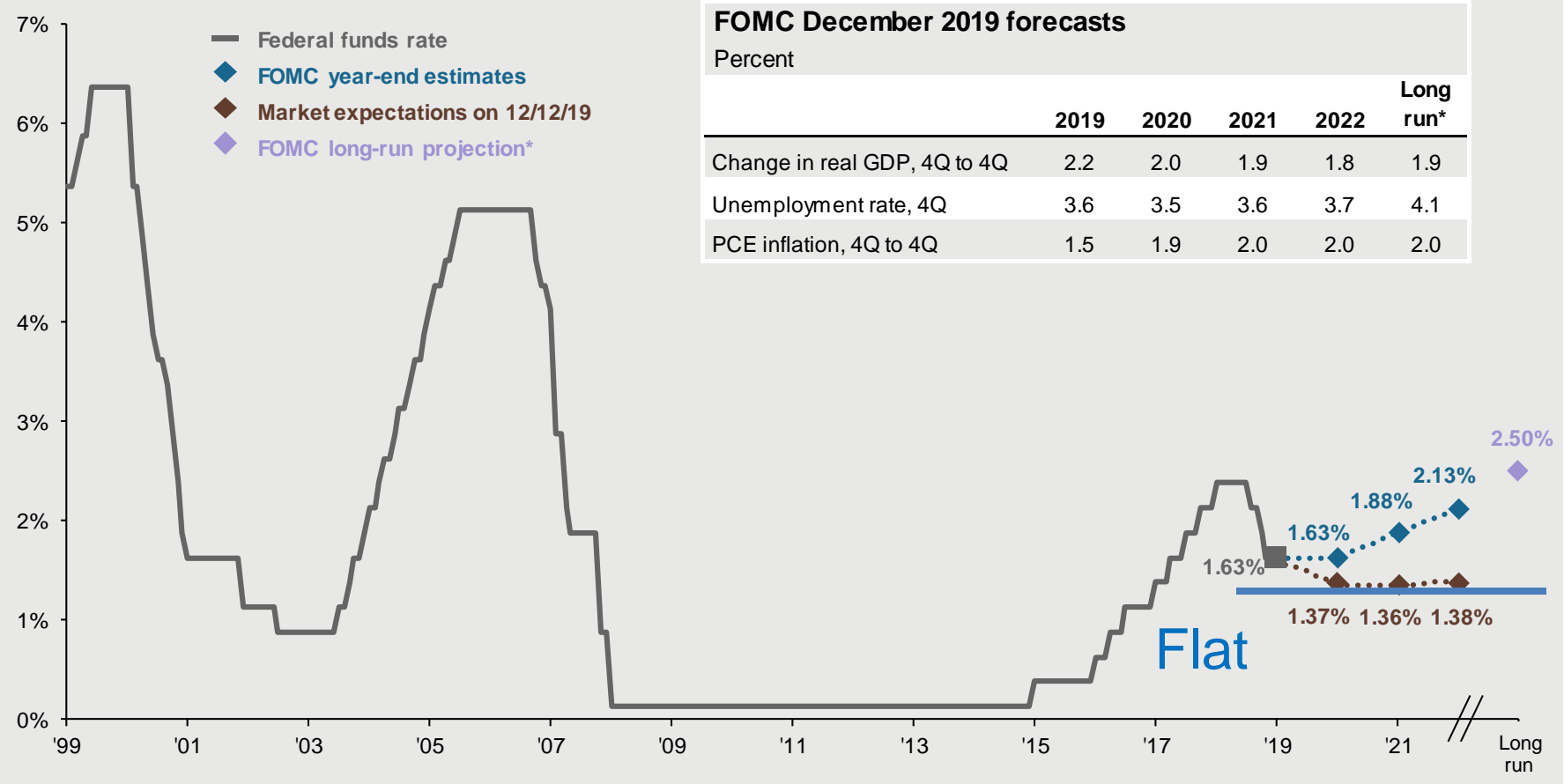
~ 1.5%

We use the one-month U.S. treasury rate as the risk-free rate. This rate is currently 1.50%. At the end of October, the Fed cut the Fed Funds rate for the third time this year reversing the 2018 rate increases. They signaled that they are likely to be patient and not move rates again unless the data is highly compelling. Taking the Fed at face value, we predict no change in the risk-free rate by this time next year.

Federal Funds Rate Expectations

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



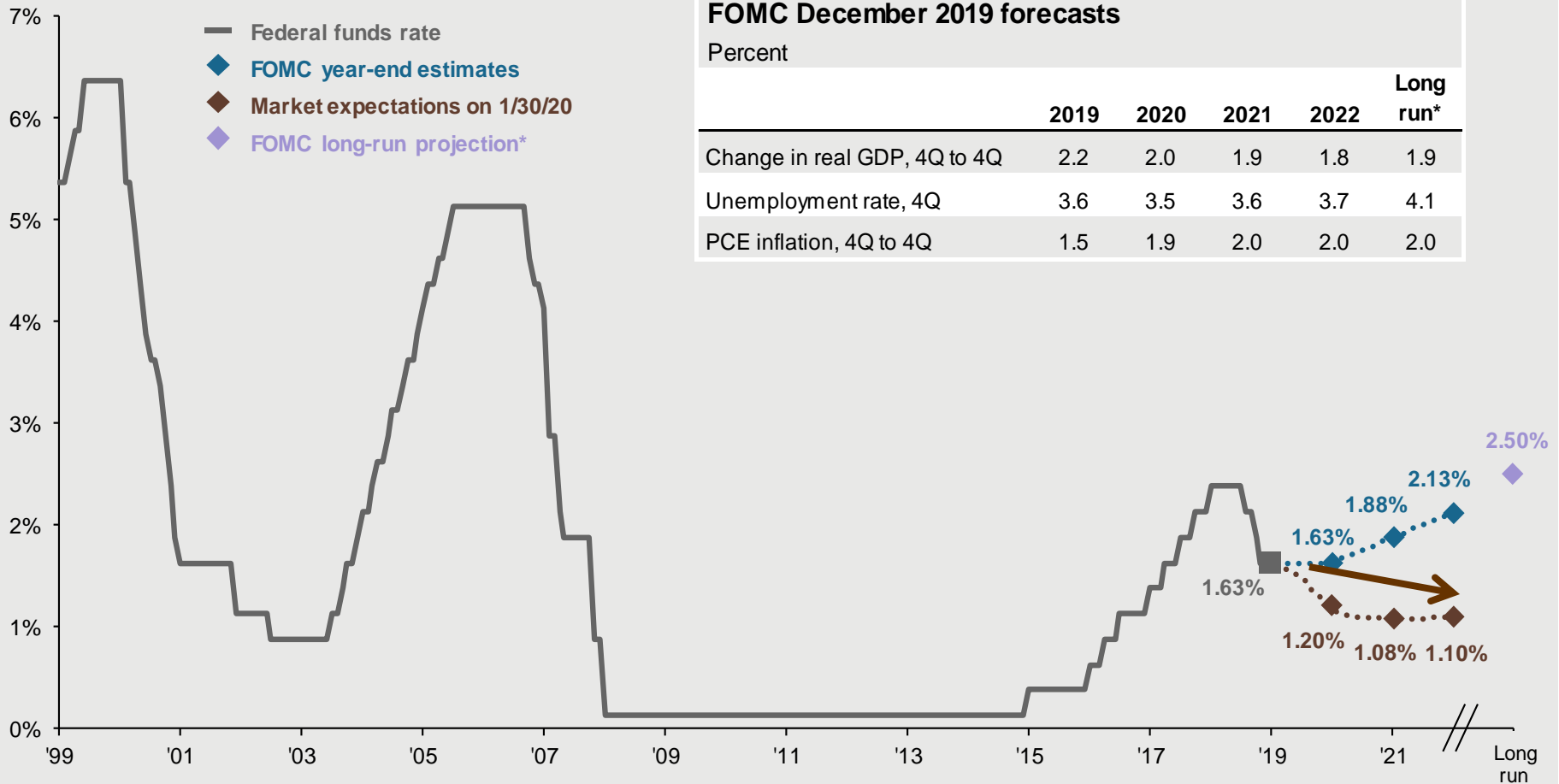
Source: JP Morgan Asset Management, Bloomberg, FactSet, Federal Reserve

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Federal Funds Rate Expectations

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



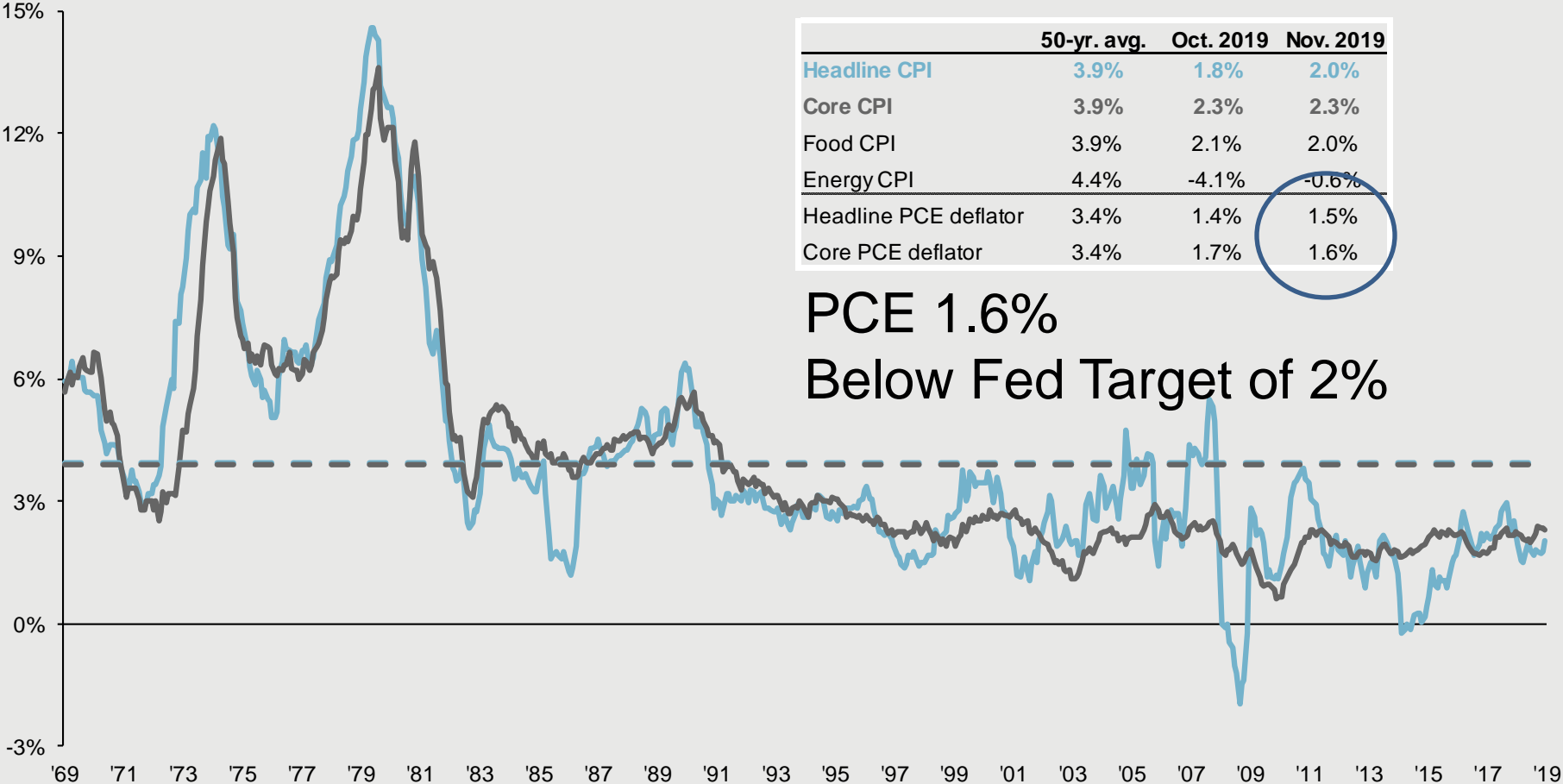
Source: JP Morgan Asset Management, Bloomberg, FactSet, Federal Reserve

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Inflation

CPI and core CPI

% change vs. prior year, seasonally adjusted



Source: U.S. Bureau of Economic Analysis

Risk Premium

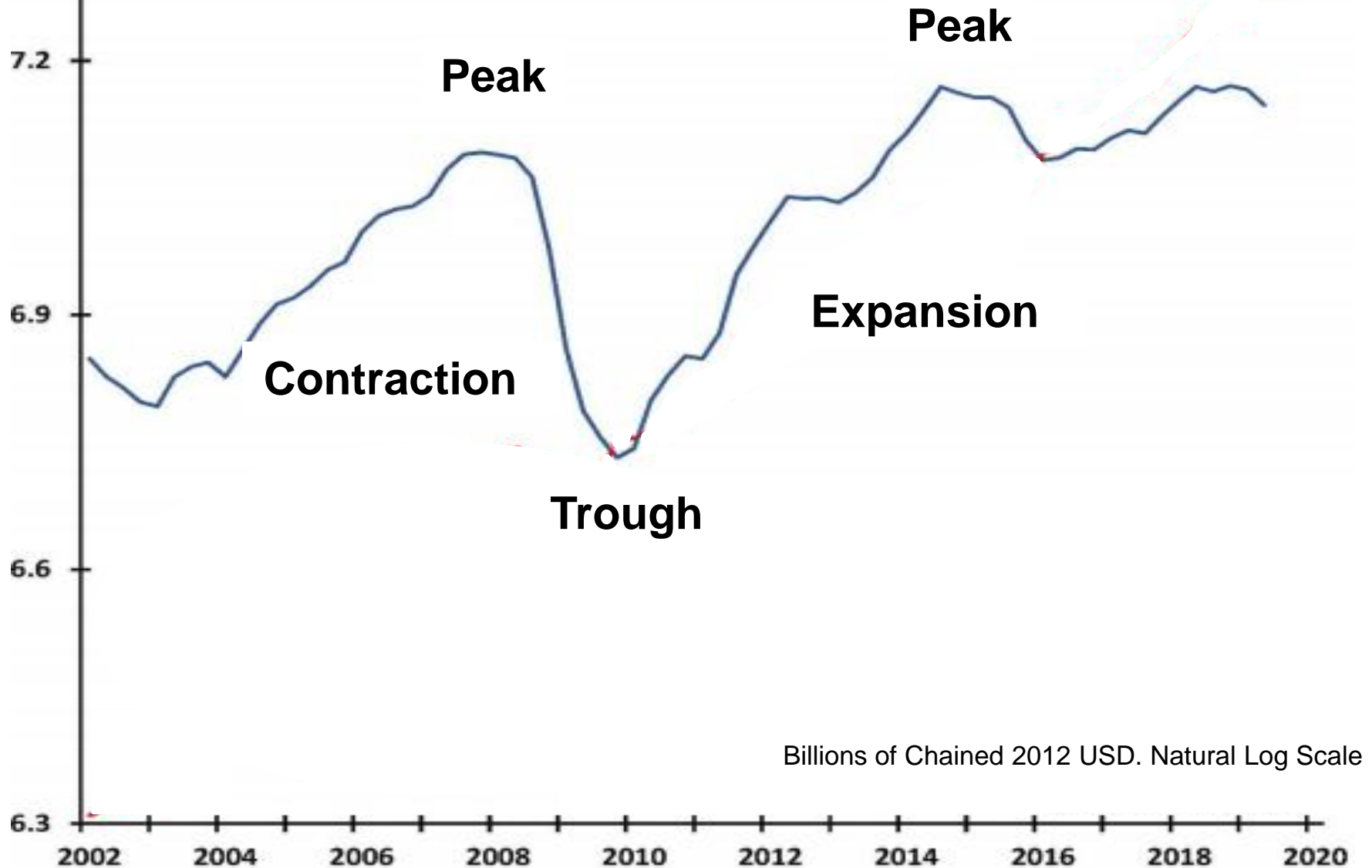
	Stock Price	Earnings	Risk Free Rat	Risk Premium
2020	3,578.91	196.84	1.50%	4.0%
2019	3,220.00	162.06	1.58%	3.5%
2018	2,767.00	162.65	1.30%	4.6%
2017	2,673.61	131.45	0.54%	4.4%
2016	2,238.43	118.24	0.24%	5.0%
2015	2,043.94	106.32	0.12%	5.1%
2014	2,058.90	113.01	0.09%	5.4%
2013	1,848.36	107.30	0.16%	5.6%
2012	1,426.19	96.82	0.07%	6.7%
2011	1,257.60	96.44	0.18%	7.5%
2010	1,257.64	83.77	0.12%	6.5%
2009	1,115.10	56.86	0.16%	4.9%
2008	903.25	49.51	4.24%	1.2%
2007	1,468.36	82.54	5.24%	0.4%
2006	1,418.30	87.72	4.16%	2.0%
2005	1,248.29	76.45	2.16%	4.0%
2004	1,211.92	67.68	0.98%	4.6%
2003	1,111.91	54.69	1.24%	3.7%
2002	879.82	46.04	1.82%	3.4%
2001	1,148.09	38.85	6.40%	-3.0%
2000	1,320.28	56.13	5.30%	-1.0%

S&P 500 1-yr. Forecast

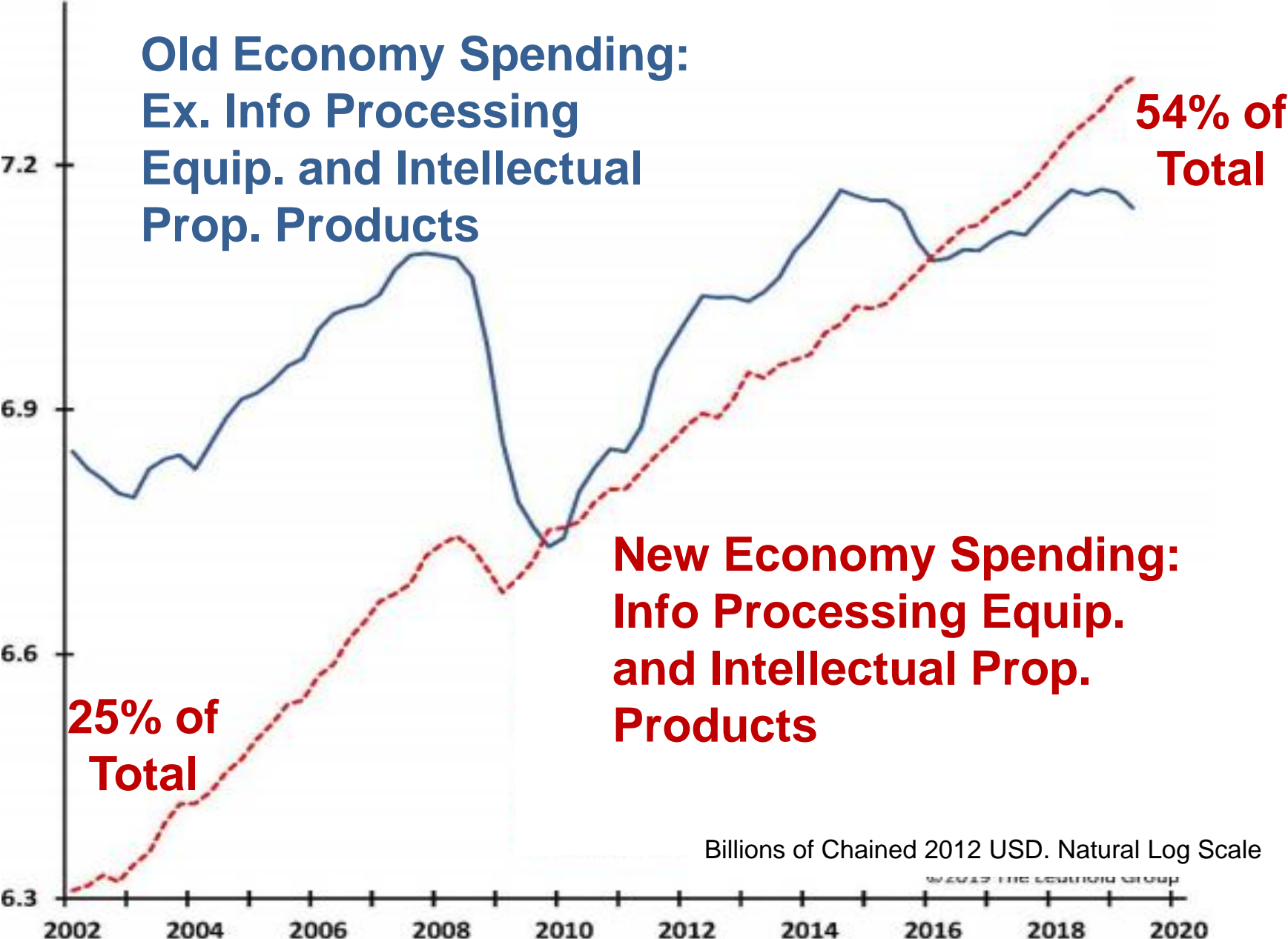
$$\begin{array}{r} \text{S\&P 500} \\ \text{1-yr Forecast} \\ \mathbf{3,579} \end{array} = \frac{\begin{array}{c} \text{Future Earnings (est.)} \\ \mathbf{\$196.84} \end{array}}{\begin{array}{c} \text{Risk-Free Rate} \\ \mathbf{1-M Treasury} \\ \mathbf{1.5\%} \end{array} + \begin{array}{c} \text{Risk Premium} \\ \mathbf{4\%} \end{array}}$$

U.S. Real Nonresidential Investment Spending

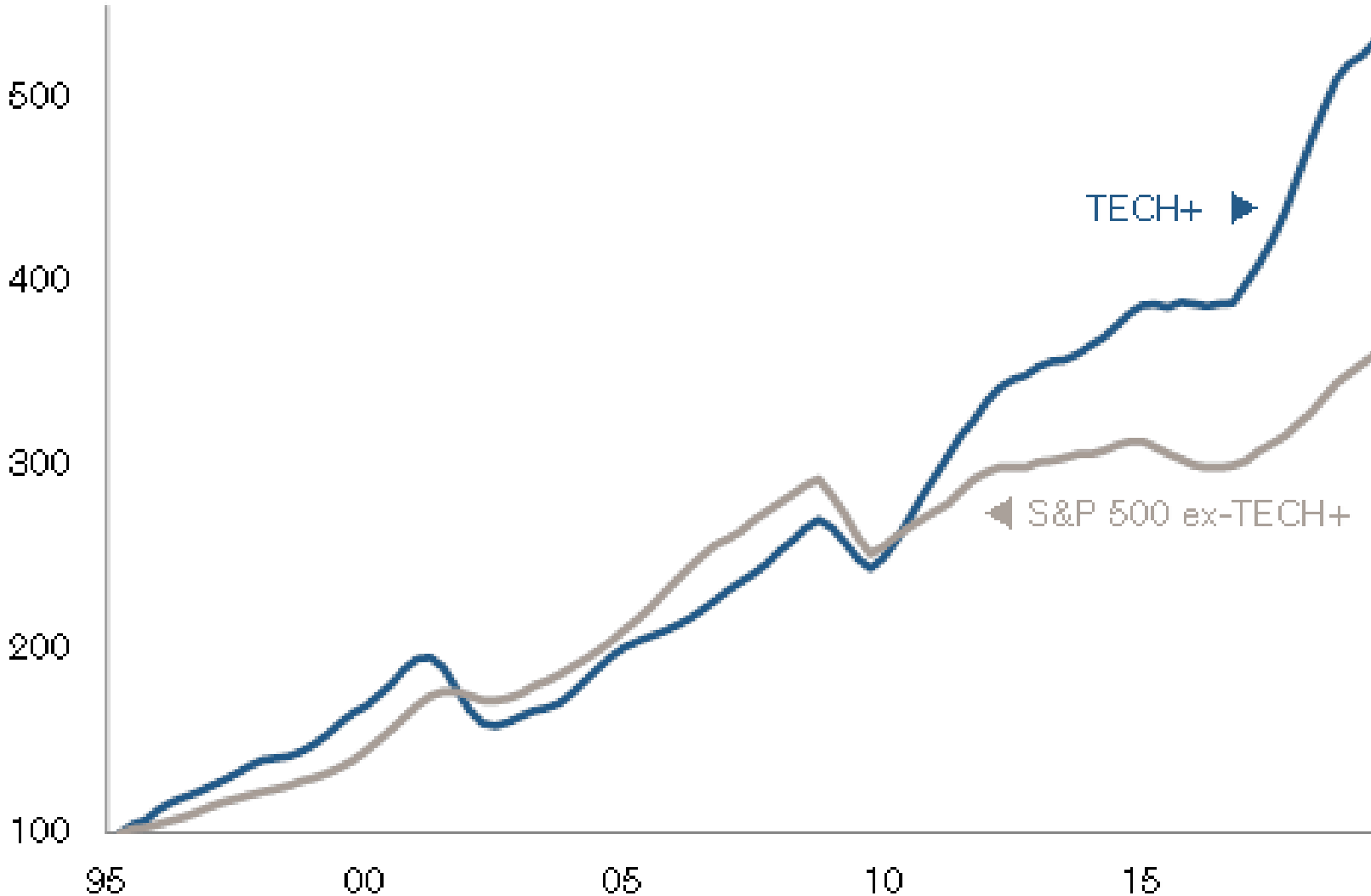
Ex. Info Processing Equip. and Intellectual Prop. Products



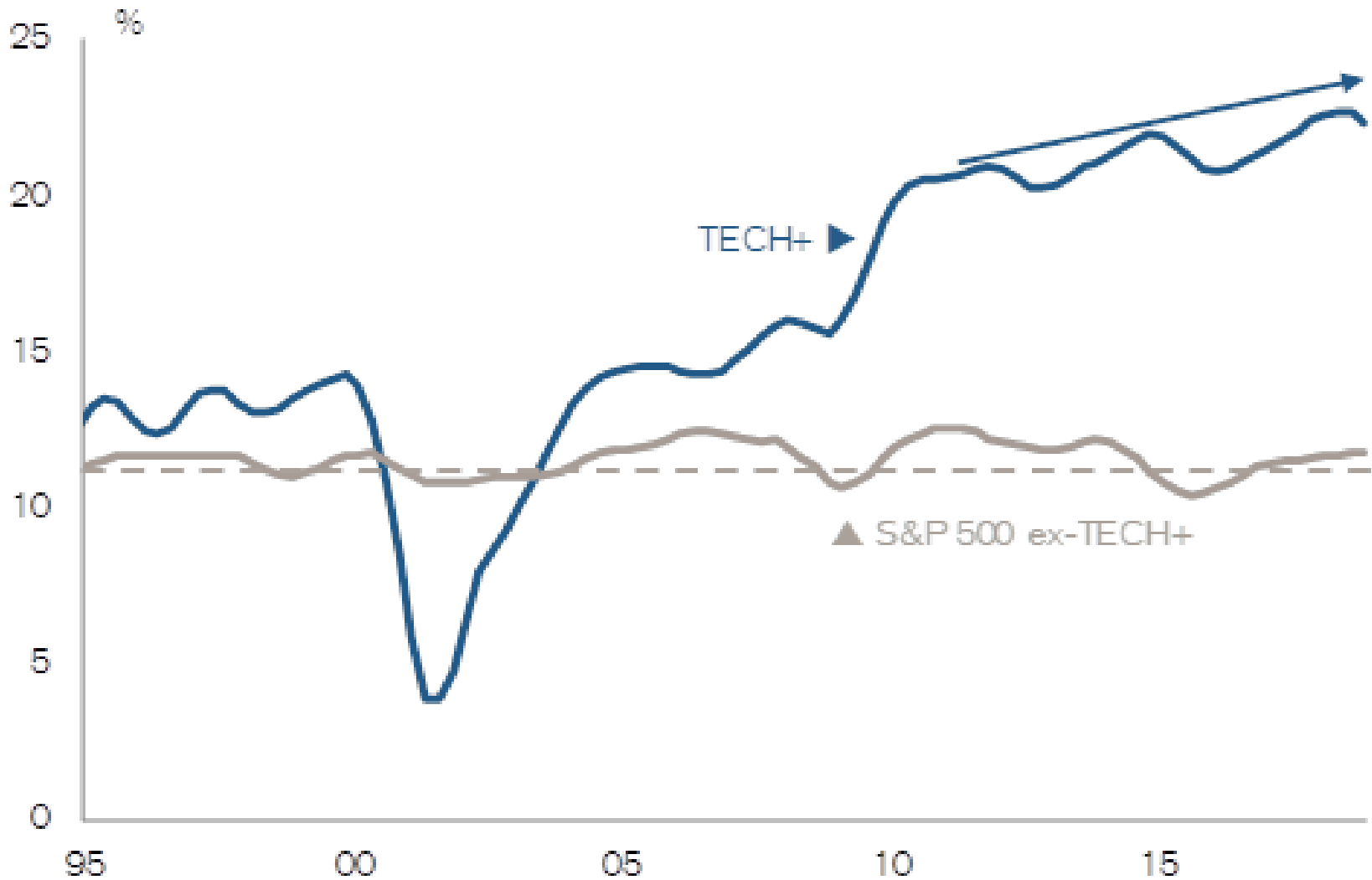
U.S. Real Nonresidential Investment Spending



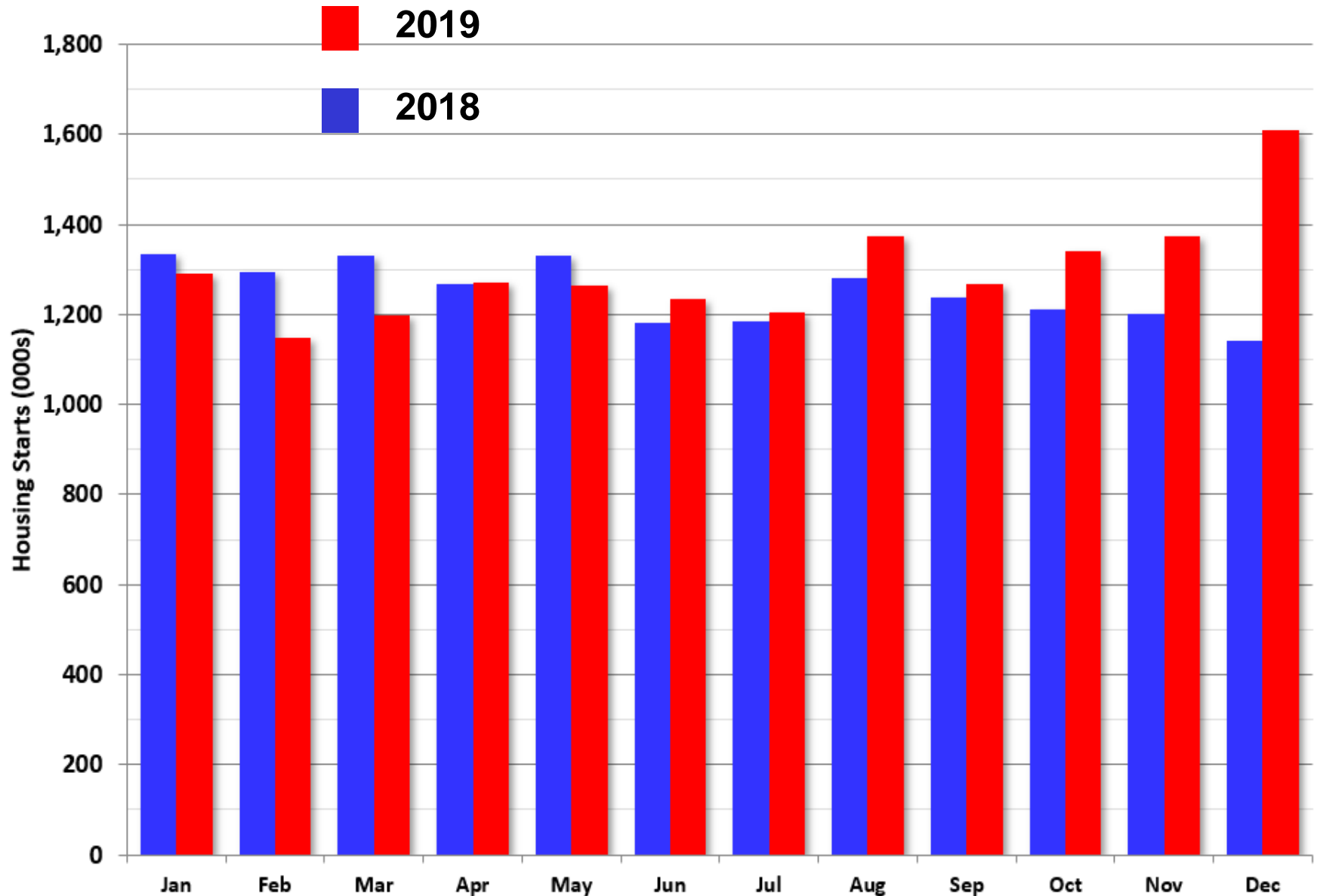
Revenue Growth



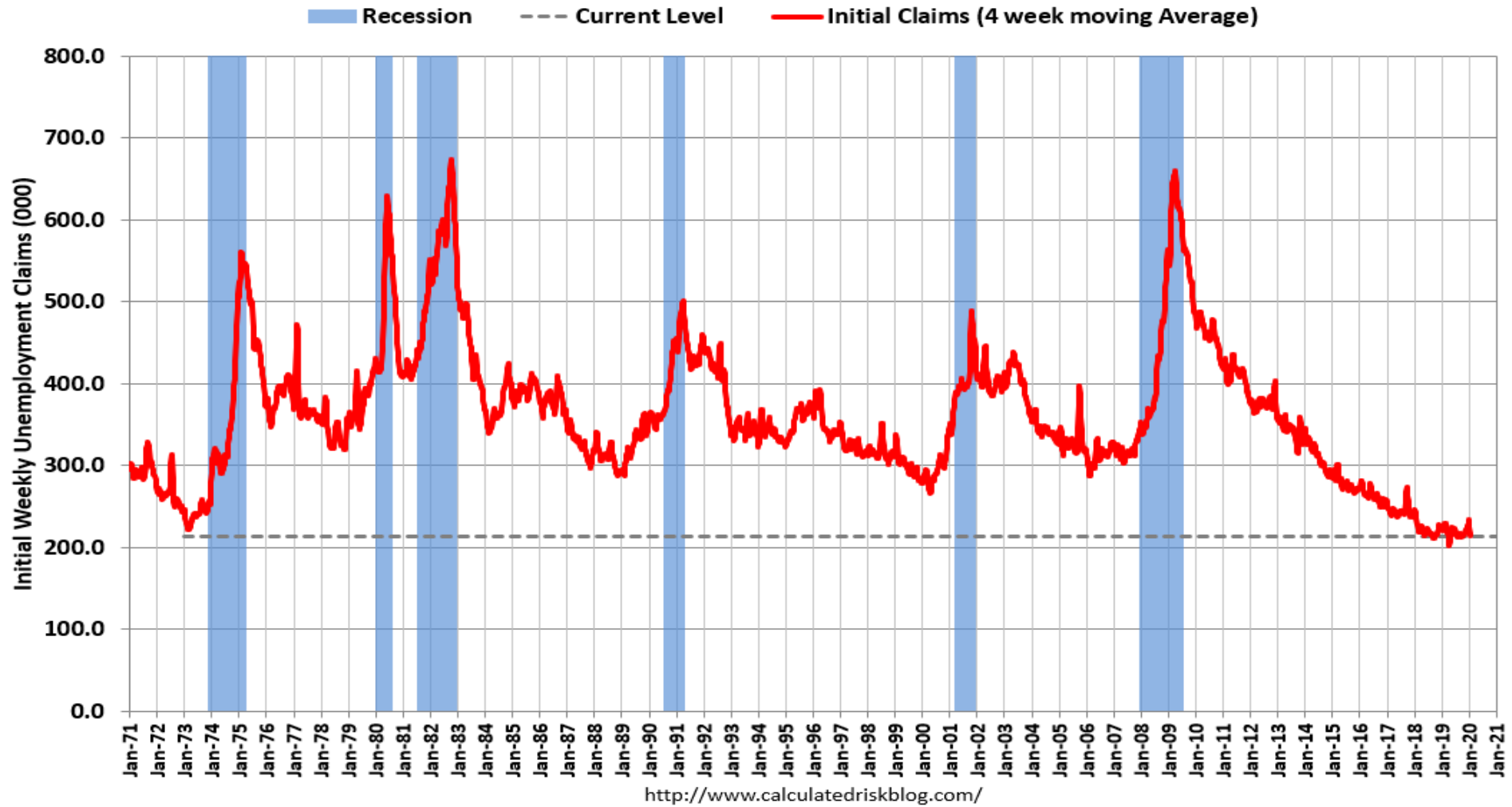
EBIT MARGINS



Housing Starts, 2018 - 2019



Unemployment Claims 4-wk avg



<http://www.calculatedriskblog.com/>

Source: JP Morgan Asset Management

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Risk Premium: High Yield Spread



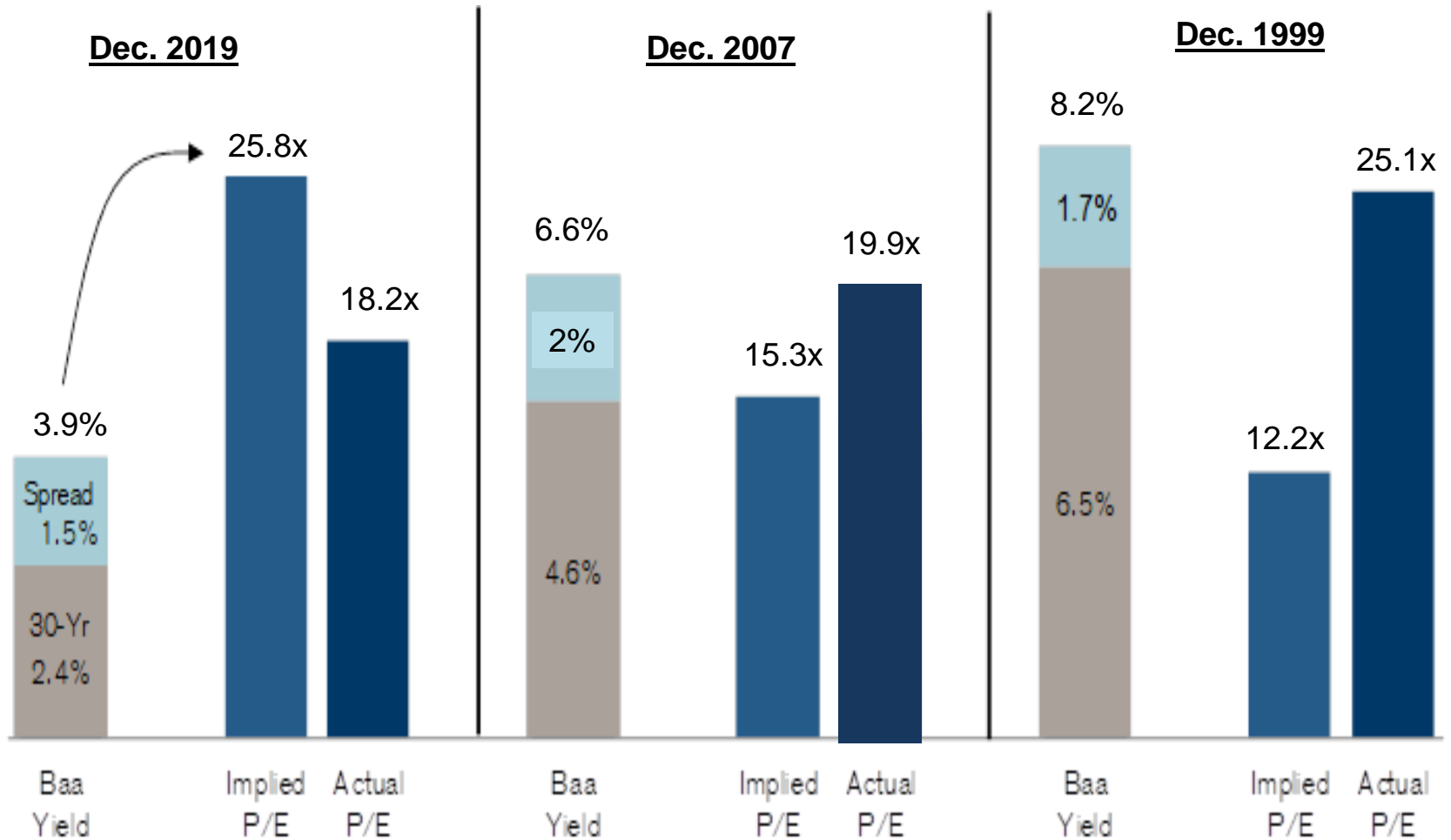
Source: Federal Reserve Bank of St. Louis

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Other Positives

- Don't fight the Fed. \$60 billion of bond buying per month, 3 rate cuts, commitment to keep rates low.
- Oil Prices have fallen from about \$63/barrel to \$50/barrel year-to-date. Stimulus for the consumer.
- Consumer Confidence strong 131.6 in January from an upwardly revised 128.2 (from 126.5) in December.
- Strong demand for U.S. bonds holding rates low.

Bond Yields vs. S&P 500 P/E



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- ❖ *An Active and Engaged Partnership to Achieve Your Financial Goals*
- ❖ *Alignment of Your Interests with Our Interests: Fiduciary to build and protect your wealth*
- ❖ *Comprehensive Wealth Management Solutions*
- ❖ *Focus on Your Absolute Returns*
- ❖ *Pro-active Downside Risk Mitigation – We Actively Protect Your Money*
- ❖ *Transparency of Process and Holdings*
- ❖ *Personalized Service*

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