

*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](mailto:info@deltaim.com) or 415-249-6337 to learn more.*

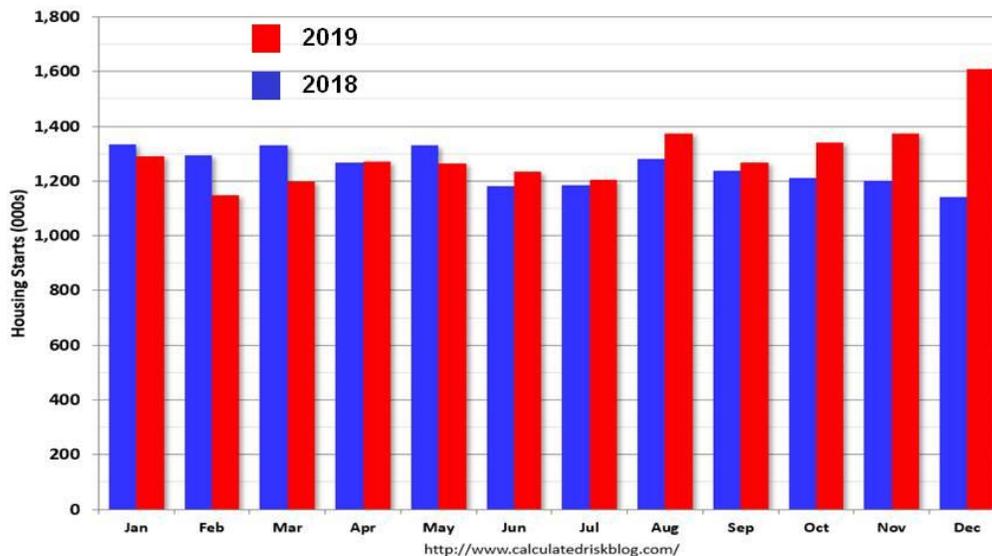
January 24, 2020

## **New Home Sales vs. Leading Economic Index?**

Niners vs. Chiefs? Ali vs. Frazier? Monitor vs. Merrimack? Some questions are just really tough to answer in advance. Two well matched forces with only one possible winner.

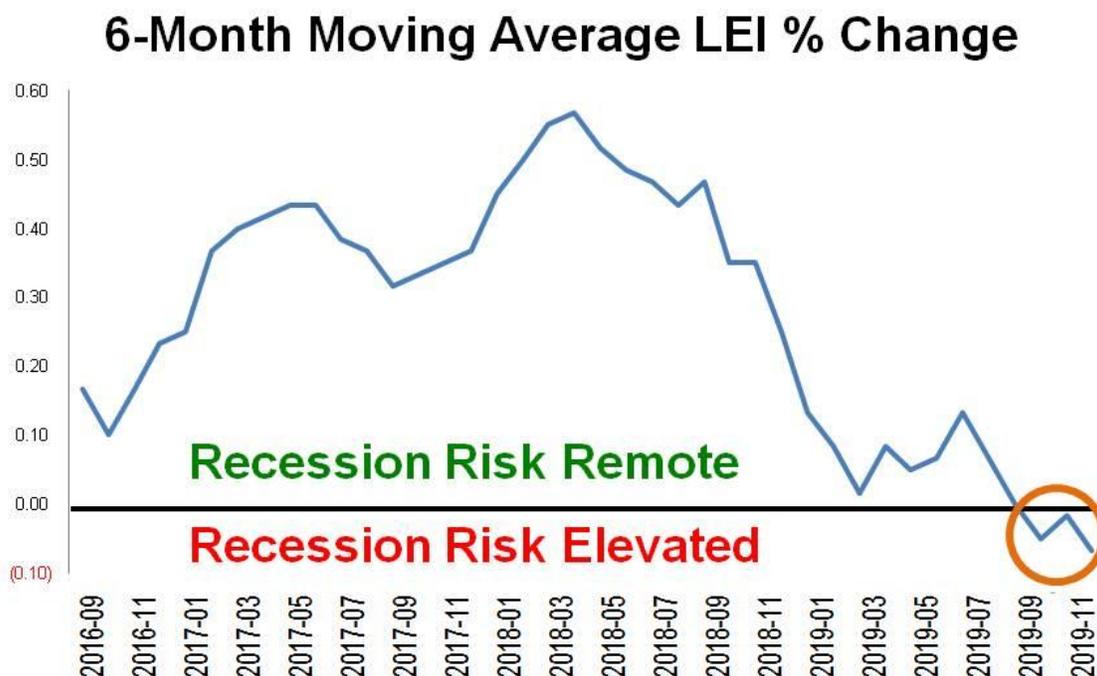
New home sales/housing starts and the Leading Economic Index (LEI) both have strong records of providing early recession warnings. New homes sales and housing starts are up solidly year-over-year suggesting recession risk is low. The housing starts report showed starts were up 16.9% in December compared to November, and starts were up 40.8% year-over-year compared to December 2018.

### **Housing Starts, 2018 and 2019, SAAR (000s)**



In the opposite corner, the Leading Economic Index has languished for the past year and suggests the economy may slip into recession later this year. The LEI on a monthly basis has declined in four out of the last five months.

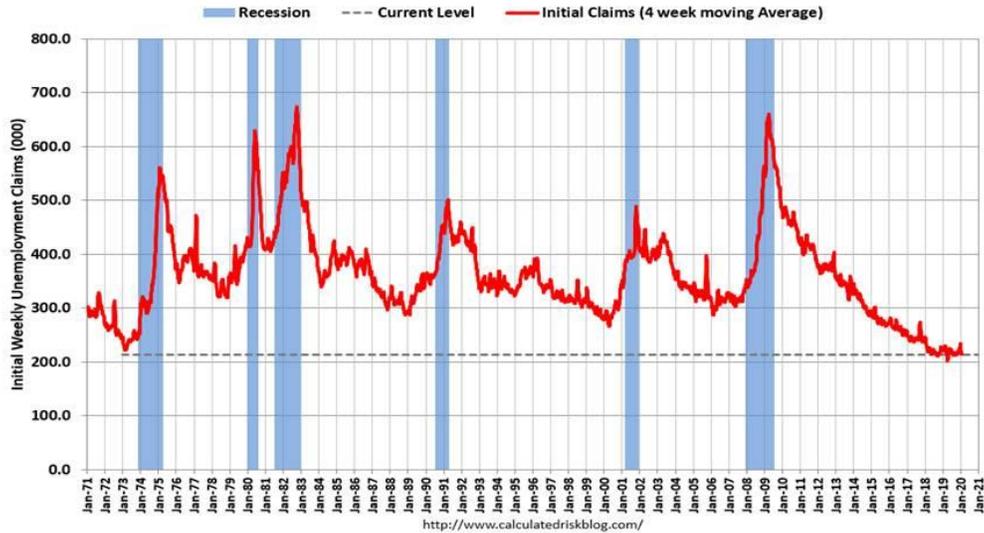
Delta uses the six-month moving average of the percent change month/month of the LEI to gauge recession risk. If the six-month moving average LEI is positive, no worries. If the six-month moving average is negative, recession risk is elevated. We have had three straight months of negative readings on the 6-month moving average. Almost all of the weakness in the LEI recently has been in manufacturing, not in employment, financial conditions or consumers' outlook.



The stock market is showing a lot of momentum currently. The S&P 500 has appreciated by about 10.6% in the past three months. The P/E of the index is now 18.6x forward twelve-month earnings, which is a 25% premium to its 10-year historical average. The Delta MSI this week indicates that roughly 82% of the 1,800 stocks Delta tracks are trading above their 75-day moving averages.

The job market also has momentum with initial jobless claims being reported this week at 211,000. This caused the 4-week average to fall below consensus forecast.

# Initial Weekly Unemployment Claims



Strength in stocks, housing and employment make the possibility of recession seem remote. But, the data on the LEI dates back to February, 1959. The last time the six-month moving average LEI indicator turned negative was in May 2006. It has been consistently positive from August 2009 until October, 2019.

The LEI provides about a year of early warning before the next recession. There is time to see if the LEI turns positive on better data in the next several months. The trade deal with China signed this month may help lift manufacturing activity. For now, we remain long equities but our enthusiasm is tempered by above average valuation and a warning flag from the LEI.

Buckle your chin straps. Game on. Winner yet to be determined.

## 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](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com).



*"Neither the time nor the place, Doug!"*

## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

**81.9**

Our technical indicator increased from 79.5 to 81.9 this week

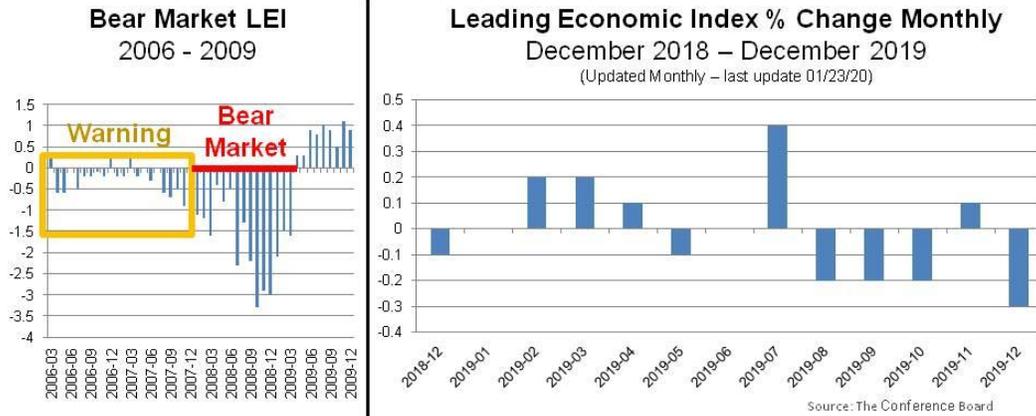
### INDICATOR STATISTICS

Consecutive Bullish Weeks:	14
Cycle Inception Date:	10/25/2019
Range:	57.4 – 81.9
Mean:	70.1
Bullish Weeks YTD:	3
Bearish Weeks YTD:	0
*S&P 500	10.07%
*DJIA	8.42%
*NASDAQ	14.54%

\*Percentage change during current cycle

### Delta Market Sentiment Indicator Over the Past Year





(Delta MSI is published every week in *Barron's*)

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