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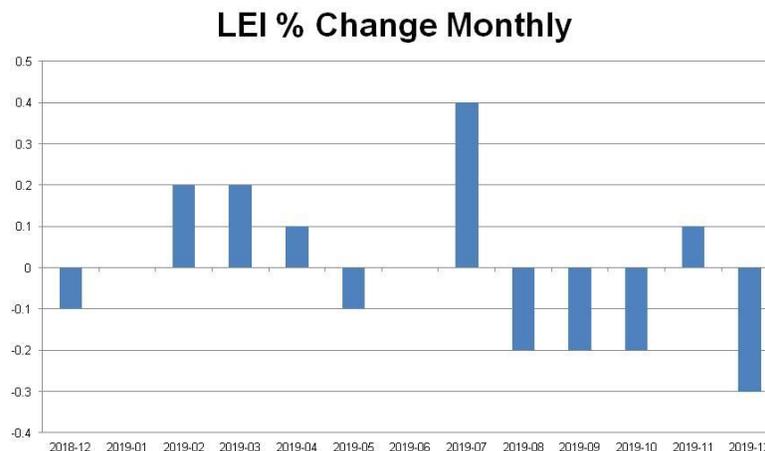
Delta manages portfolios at TD Ameritrade and Schwab.

Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

January 31, 2020

Getting Behind the Numbers, Time to Panic?

Delta uses the Leading Economic Index (LEI) as a predictive indicator of recession. Four of the past five months have shown negative month-over-month readings. On a stand-alone basis, this is not bullish.



The LEI is comprised of ten economic measures, each with a different factor weighting. 56% of the index is connected to the manufacturing sector of the economy;

Leading Economic Index Factors

1. Average weekly hours, manufacturing	28%
2. Average weekly initial claims for unemployment insurance	3%
3. Manufacturers' new orders, consumer goods and materials	8%
4. ISM® new orders index	16%
5. Manufacturers' new orders, nondefense capital goods excl. aircraft	4%
6. Building permits, new private housing units	3%
7. Stock prices, 500 common stocks	4%
8. Leading Credit Index™	8%
9. Interest rate spread, 10-year Treasury bonds less federal funds	11%
10. Avg. consumer expectations for business conditions	14%

56%

While the LEI declined, the stock market appreciated by about 10%. On the surface, one might say that the manufacturing sector of the U.S. accounted for only 11.4% of the total output of the economy and employed 8.5% of the workforce (12.8 million people) in 2018 and the LEI weights excessively the importance of manufacturing. Additionally, we could argue the trade wars have disproportionately impacted manufacturing. However, it remains somewhat disconcerting that the LEI has been trending lower.

The manufacturing sector of the economy is in recession. The ISM measure of manufacturing activity shows the sector in contraction for the fifth consecutive month.

Beyond the trade wars, the manufacturing sector has been hit by:

1. 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.
2. 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%.

After taking the double-gut punch of the GM strike and 737 Max production halt, the manufacturing sector and the broader economy are beginning to feel the effects of the Wuhan coronavirus. It is almost impossible to determine what the eventual impact of the virus will be but we do know the Chinese government is restricting the travel of an increasingly large portion of the Chinese population. Oil consumption is expected to decline and oil prices are down 20% since the start of the year.

Time to Panic?

No.

1. The GM strike is over.
2. Boeing is expected to resume manufacturing the 737 Max this summer.
3. The Wuhan coronavirus will end. If we gauge the eventual impact from the SARS virus (another coronavirus), the economic impact should be relatively small and short-lived.

And:

1. Don't fight the Fed: The Fed cut the Fed Funds rate 3 times and does not plan to make any further changes soon. Additionally, the Fed has resumed quantitative easing and is buying \$60 billion worth of bonds per month.
2. The 20% decline in oil prices is a stimulus to consumers.

3. The housing (new home starts) and job markets remain robust.
4. Consumer confidence is running high and above expectations.
5. The debt market is showing little signs of stress with the high-yield spread well below 5% (current 3.83%).

Over the next several months, we will see if the LEI recovers as a result of the Phase One China trade deal, the end of the GM strike and the resumption of 737 Max production. For now, Delta seeks to use volatility as a buying opportunity.

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.



"Have you given any thought to what you're going to do with your life after the Super Bowl?"

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

68.8

Our technical indicator decreased from 81.9 to 68.8 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	14
Cycle Inception Date:	10/25/2019
Range:	57.4 – 81.9
Mean:	71.7
Bullish Weeks YTD:	4
Bearish Weeks YTD:	0
*S&P 500	8.2%
*DJIA	6.8%
*NASDAQ	12.8%

* Percentage change during current cycle



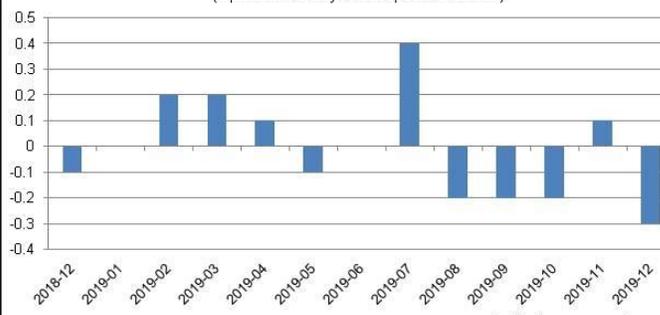
(Delta MSI is published every week in *Barron's*)

Bear Market LEI 2006 - 2009



Leading Economic Index % Change Monthly December 2018 – December 2019

(Updated Monthly – last update 01/23/20)



Source: The Conference Board

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