

*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.*

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February 14, 2020

## **LovE Is Prevalent**

When we say LovE, we are referring to Leverage and Equity. Goldman Sachs prime brokerage (custodian for a significant number of hedge funds) reports they saw the largest net buying of Equities by hedge funds in nearly five months. Net Leverage increased as well.

### **Hedge Fund Change in Equity and Leverage**



Hedge funds had a difficult 2019. According to Eureka hedge (largest hedge fund database provider), the average fund delivered 7% when the S&P 500 was up by about 30%. During 2019, investors pulled more than \$131 billion out of hedge funds.

Given that many individual investors are buy-and-hold type investors, hedge fund flows on the margin can be a primary driver of the market in the short-term. Their aggressive increase in net long positions helps explain some of the recent strength in U.S. stocks.

With \$131 billion of outflows last year, hedge funds cannot afford to continue to miss the bull move. The strength of the bull is forcing capitulation in the form of institutional buying.

Hedge funds may also be looking at the potential implications of Coronavirus on the Federal Reserve Fed Funds rate. As we entered 2020, the Federal Reserve and Fed funds futures prices showed essentially no expected change to the Fed funds rate through the course of this year. Coronavirus is having an increasingly negative impact on China's economy and potentially on global economic growth rates. This week, we learned that China has been underreporting the number of cases. Fed funds futures traders are now pricing in an 80% chance of at least one rate cut by the December Fed meeting.

Lowering the discount rate by which investors value stocks helps lift valuations. When we input a 0.25% reduction in the risk-free rate, Delta's market valuation models output a 5% increase in the expected value of the S&P 500. Month-to-date through February 12, the S&P 500 advanced by 4.9%. LovE is a very powerful force.

### 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).



*"You're kidding, right?"*

