

*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.*

July 3, 2020

## **Hyper Speed Creates Uncertainty**

J.P. Morgan Asset Management calculates the recession that began in March ended in May. The pace of change in the markets and the economy is moving at record speed. The pace of change is creating apparent dichotomies that make the investment landscape confusing. The Covid-19 headline news is persistently negative. Corporate earnings are forecast to fall by about 44% in the second quarter. Yet, the NASDAQ is at record highs and the S&P 500 is close to breakeven after enjoying its best quarterly performance in the past 22 years.

The FBI conducted 3,931,607 National Instant Criminal Background Checks (NICS, “S” stands for System) in June. This was up 70% year-over-year. NICS background checks are performed when someone attempts to buy a gun. The FBI is on pace to perform over 38 million NICS checks this year. This implies that one out of every eight Americans will attempt to buy a gun in 2020. That is up 35% over last year’s total of about 28 million which was by far the most amount of checks ever.

It is unlikely that the popularity of hunting and target shooting is rising this fast. It is more likely that uncertainty stemming from Covid-19, riots and potential police force defunding is instigating the surge in gun demand. Buying a gun for self-protection suggests there is diminishing confidence the government is able to deliver this service. A gun may help an individual feel they have more control over their lives in a world that seems somewhat out of control. Broad based gun buying might be the most fundamental measure of uncertainty.

Investor behavior can be subject to “anchoring” bias, particularly in a world changing at record speed. Anchoring bias is when an investor relies too heavily on an initial piece of information to make subsequent judgments. In today’s world, many investors might be overly anchored on pandemic, economic shut-down and recession. To many, what is happening in the markets looks “unbelievable.” Stock valuations seem untethered from reality.

Don't anchor. Simplify. In this moment:

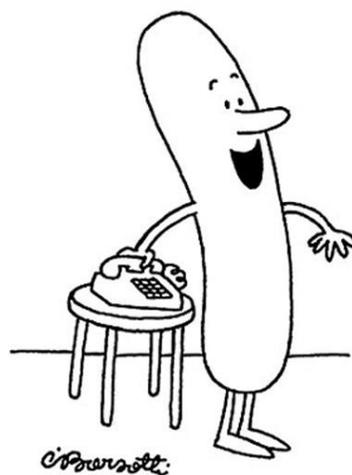
1. There are trillions of dollars of stimulus and liquidity from the federal government/federal reserve being injected into the economy.
2. On the margin, economic data is generally better than expected. This week, the ISM Manufacturing Index showed expansion at 52.6 versus expectations of 49.2 and nonfarm payrolls increased by 4.8 million rather than by 3 million expected.
3. Money generally flows to its highest return use.
4. The "real" interest rate on the 10-year U.S. treasury is negative.
5. The earnings yield on stocks is roughly 5%.

In the future, it is possible that the high-frequency economic data could decelerate. It is possible that the Covid-19 pandemic could become significantly worse and the economy slip into a double-dip recession. It is possible we could see higher inflation and P/E multiple compression. It is possible that tax rates rise to compensate for record levels of government debt.

At this time, we do not have sufficient information to know if any of the above negative scenarios are likely events. During June, the stock market endured two meaningful pullbacks. Rather than break down, the market consolidated and rallied. From a technical perspective – the Delta Market Sentiment Indicator is Bullish at 82.5, the market has positive momentum.

This week, stocks continue to offer attractive relative returns and bullish trends should continue in the intermediate term.

Happy Independence Day!



*"Hey, everybody, we're invited to a cookout!"*

## 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).

# Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BULLISH**

THIS WEEK'S NUMBER IS

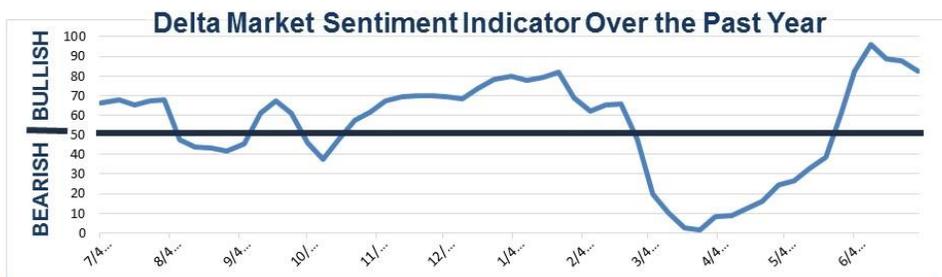
**82.5**

Our technical indicator decreased from 87.7 to 82.5 this week

### INDICATOR STATISTICS

Consecutive Bullish Weeks:	6
Cycle Inception Date:	5/28/2020
Range:	60.9 – 96.2
Mean:	83.1
Bullish Weeks YTD:	14
Bearish Weeks YTD:	13
*S&P 500	3.5%
*DJIA	2.0%
*NASDAQ	8.6%

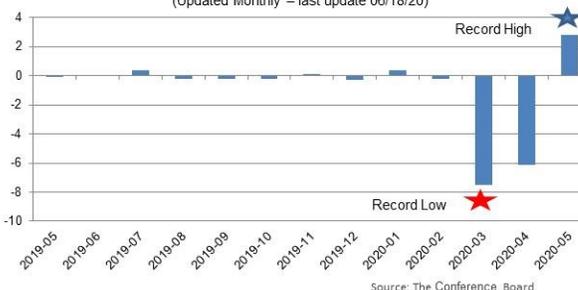
\* Percentage change during current cycle



**Bear Market LEI  
2006 - 2009**



**Leading Economic Index % Change Monthly  
May 2019 – May 2020**  
(Updated Monthly – last update 06/18/20)



Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisors Act of 1940, we advise all readers to recognize that they should not assume that recommendations made in the future will be profitable or will equal the performance of past recommendations. This publication is not a solicitation to buy or offer to sell any of the securities listed or reviewed herein. The contents of this letter have been compiled from original and published sources believed to be reliable, but are not guaranteed as to accuracy or completeness. Nicholas Atkeson and Andrew Houghton are also principals of Delta Investment Management, a registered investment advisor. Clients of Delta Investment Management and individuals associated with Delta Wealth Adviser may have positions in and may from time to time make purchases or sales of securities mentioned herein.

THIS NEWSLETTER IS PROTECTED BY COPYRIGHT LAW. UNAUTHORIZED DISTRIBUTION AND/OR REPRODUCTION BY PHOTOCOPY OR ANY OTHER MEANS IS STRICTLY PROHIBITED AND PUNISHABLE BY A FINE OF UP TO \$25,000.