

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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September 10, 2021

If We Can Agree on Growth, What Then?

The media highlights the polarization of opinions in America. From an investment standpoint, it can be instructive to consider what metrics the investment community agrees on rather than disagrees on. Knowing what the “market” believes to be the case allows an investor to position investments accordingly.

The technical definition of a recession is two sequential quarters of negative GDP growth. By all objective measures, the U.S. economy is not currently in a recession. By definition, this means that there is broad agreement that the economy is growing rather than contracting.

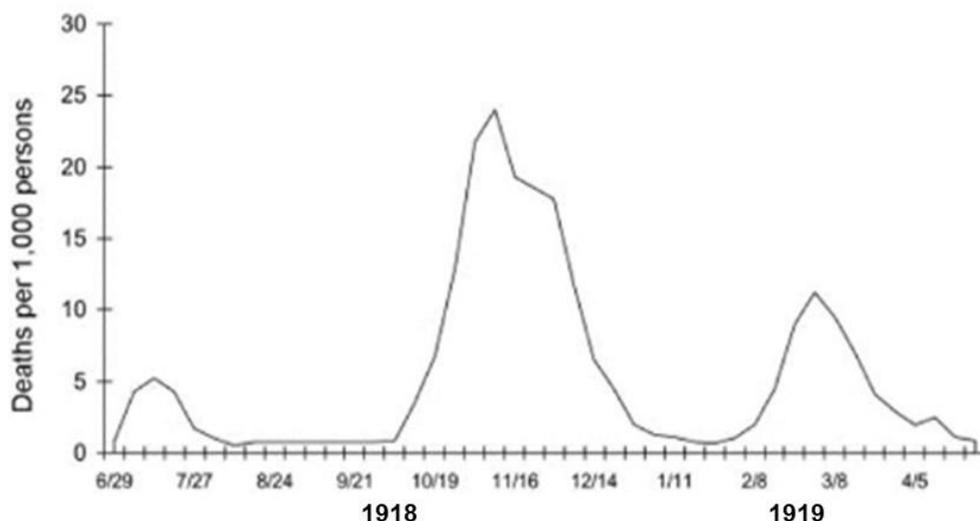
The recent rise in Covid cases as a result of the Delta variant caused many service businesses to experience slowing growth in the past month or so. For example, American Airlines, United, JetBlue and Southwest all lowered their earnings outlooks for the third quarter this week as a result of the Delta variant.

Yet, even with negative revisions to third quarter GDP growth and earnings estimates, it is universally believed that there will be positive growth in the third quarter. Additionally, many economists believe the Delta variant will simply push consumption out to the fourth quarter and into 2022. Consensus 2022 real GDP growth expectations are in the 4-5% range.

From a Delta variant standpoint, average daily infections and hospitalizations are beginning to decline in the U.S. It is estimated that the percent of the US population that has either been infected with Covid and/or been vaccinated is somewhere between 70-80%. When we reach 85%, the infection rate is expected to decline materially.

Below is a chart of the three waves of Spanish Flu in 1918 and 1919. If we follow the pattern of the Spanish Flu, it looks like we are on the backside of the third wave both in terms of chart pattern and elapsed time.

Three Waves of Spanish Flu (UK, 1918-1919)



Despite the recent economic dampening effects of the Delta variant, the investment community broadly agrees the economy is growing. With the backdrop of positive real GDP growth, analysts are forecasting 7-10% corporate earnings growth over the next several years as revenues are rising faster than expenses.

If we agree on growth (real GDP expansion), the following statistics have held historically:

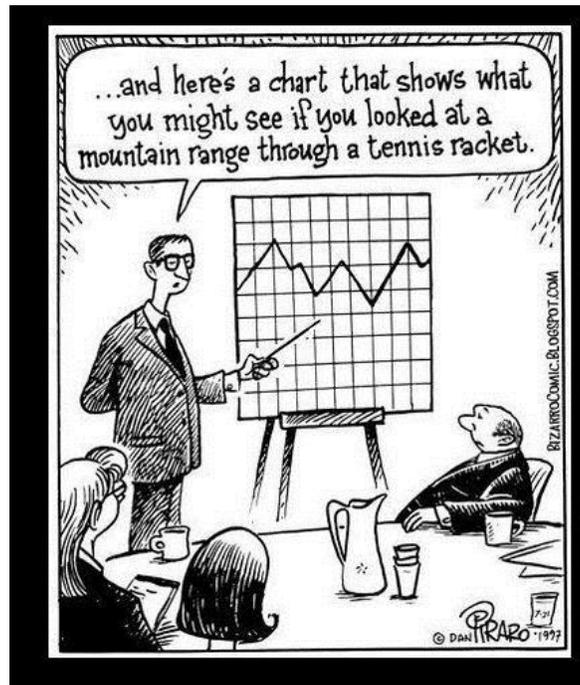
- Investors have enjoyed an 87% likelihood of a positive return when the economy is expanding,
- Major market declines that have lasted for years have only occurred during recessions since WW2,
- Goldman Sachs Asset Management believes the odds of the S&P 500 being at current or higher levels by year end is 90%.

Although we may all agree on growth, we may not all agree on valuation. One way to measure valuation is with the equity risk premium. This is a calculated number that quantifies the excess return an investor is receiving for the risk of owning stocks. The equity risk premium today is 3.4%. Before the market declines of 2000-2002 and 2008-2009, the equity risk premium was negative. From this perspective, current valuation of the S&P 500 is not excessive (bubble prices).

Investing is the art of taking “calculated” risk. Given we agree on growth, the calculation of risk is favorable to further equity investing currently.

Let Us Help You Position Your Portfolio – 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.



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

63.4

Our technical indicator decreased from 64.6 to 63.4 this week

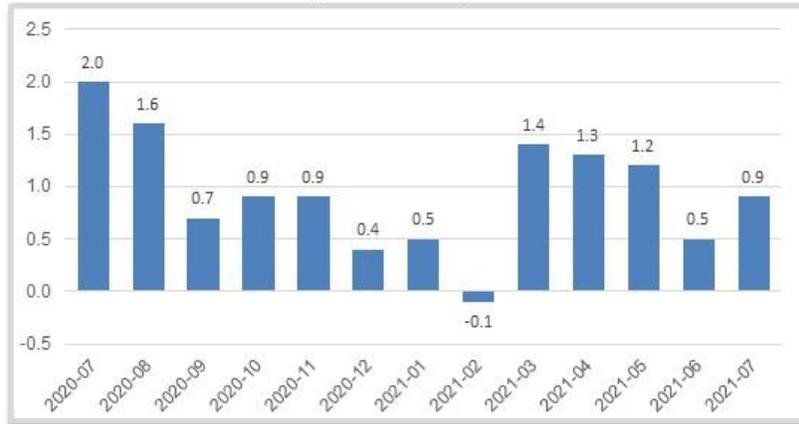
INDICATOR STATISTICS

Consecutive Bullish Weeks:	5
Cycle Inception Date:	8/12/2021
Range:	49.6 – 64.6
Mean:	57.3
Bullish Weeks YTD:	33
Bearish Weeks YTD:	3
*S&P 500	1.6%
*DJIA	-1.0%
*NASDAQ	3.6%

* Percentage change during current cycle



Leading Economic Index % Change Monthly July 2020 – July 2021



Source: The Conference Board – last update 08/19/2021

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