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Delta Wealth Accelerator
a weekly commentary on investing

Delta Investment Management is a registered investment advisory firm. Delta manages client portfolios at Schwab and TD Ameritrade. Please contact Delta at info@deltaim.com or 415-249-6337 to learn more about our process and value added service.

April 8, 2016

First Quarter Stock Market Roller Coaster: What Was That All About?

The stock market experienced a wild ride in the first quarter. The recovery from the February lows was the largest first quarter recovery after a 10% or greater initial decline during the quarter since 1933.

S&P 500 Index – Past 9 Months

There have been nine instances of the S&P 500 declining by more than 10% during the first quarter followed by at least a 10% recovery during the same quarter. On average, the S&P 500 has advanced by 28% during the remaining three quarters of the year with positive returns 75% of the time. Of the eight times this has happened previous to 2016, five of those instances were in the 1930s. Otherwise, the years were 1980, 2003 and 2009 when the market advanced by more than 30% in the final three quarters in each of these years. In 1933, the market declined by -24.7% and then rebounded 25.3% in the first quarter. During the subsequent three quarters of 1933, the S&P 500 advanced by another 70%.

What explains the incredible volatility in the first quarter 2016? Part of the answer is fear: fear of recession, fear of global slowdown – especially in China, fear of the ramifications of oil falling to the mid $20s per barrel, fear of the possible outcomes in the presidential elections, fear etc. On January 12, the Royal Bank of Scotland warned of a 'cataclysmic' year and advised clients to "sell everything" ahead of the crash. Since their sell-everything call, the S&P 500 is up by about 7%.

There was a significant amount of institutional selling in the first quarter, some of it forced. Sovereign wealth funds were primary suspects in a forced selling scenario as oil prices dropped to $26 per barrel and many oil producing countries are running significant budget deficits. Bloomberg estimates sovereign wealth funds may sell roughly $400 billion of equities this year if oil remains below $40 per barrel.

In additional to selling by sovereign wealth funds, 979 hedge funds were closed in 2015, the most since the great recession. Much of the performance damage to hedge funds occurred during the market volatility from August through December. It is likely many of these funds returned capital to investors in early 2016 after lock-ups expired. In January alone, hedge funds experienced $21.5 billion worth of redemptions. In a low liquidity market, the impact of hedge funds closing may have distorted stock prices significantly in the short term.

Retail investors have also been sellers. $171 billion was withdrawn from domestic equity mutual funds in 2015, a record level and fund flows remain negative through the first quarter.

Mutual Funds Fund Flows

USD billions	**AUM**	**YTD 2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Domestic equity	5,625	(19)	(171)	(60)	18	(159)	(133)	(81)	(28)	(149)
World equity	1,971	21	94	85	141	6	4	57	30	(67)

Given the broad based selling pressure, the resilience of the stock market is remarkable. Sharp sell-offs have been driven by more sellers than buyers in a low liquidity market. Stock market recoveries have been fundamentally based on continued evidence of underlying economic growth, low interest rates and expectations corporate earnings will eventually show positive growth after four consecutive quarters of negative growth (including expected Q1 2016).

S&P 500 12 Month Trailing Earnings-Per-Share (EPS)

November 19, 2000 through February 25, 2016

Source: Bloomberg, DoubleLine

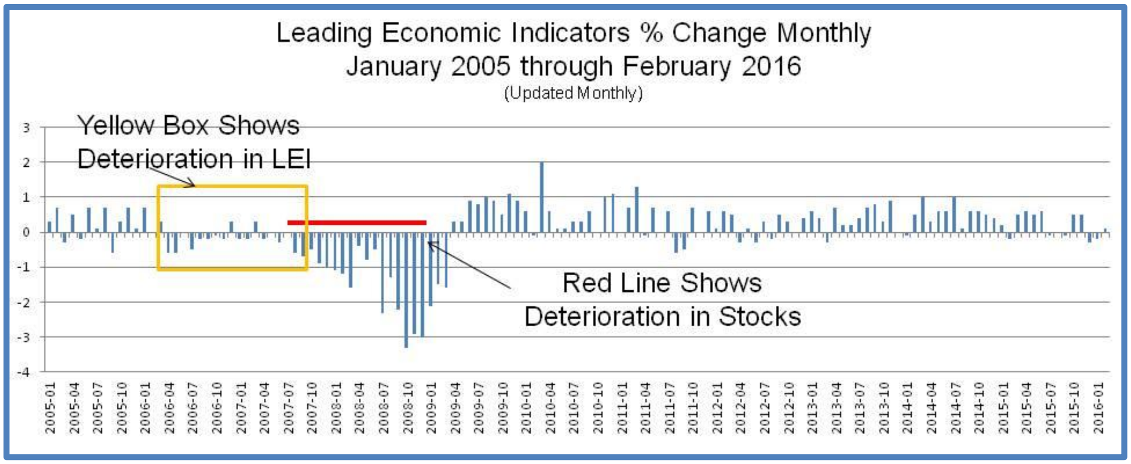
S&P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. EPS = earning per share. You cannot invest directly in an index.

The primary source of buying interest has been corporate stock buybacks. Through the first five weeks of the year, Goldman Sachs estimates there were $63 billion worth of buybacks, the fastest start on record for share repurchases.

Between now and the bulk of earnings reporting season in the next several weeks, companies enter the “quiet period.” From the quarter-end date to the time of their earnings release, companies in compliance with full-disclosure laws stop talking with analysts and investors and they generally avoid any action that provides insight on quarterly results. For the next couple of weeks, stock buyback activity will likely decrease and the market may experience higher volatility without this important source of buying pressure in the market.

This week, the Delta Market Sentiment Indicator (MSI) is bullish. The yield curve has a positive slope and the Leading Economic Indicators increased 0.1% in February following declines in January (-0.2%) and December (-0.3%).

Delta Stock Market Dashboard



MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

74.8

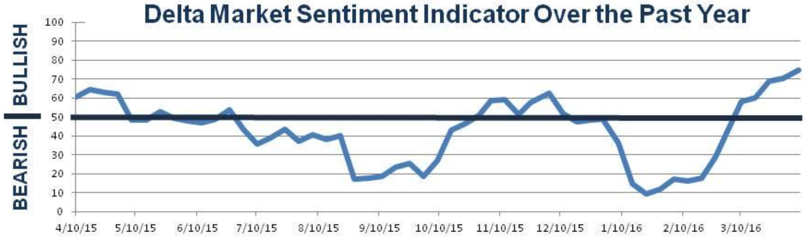
Our technical number increased this week from 70.5 to 74.8

INDICATOR STATISTICS

Consecutive Bullish Weeks:	5
Cycle Inception Date:	3/10/2016
Range:	58.0 – 74.8
Mean:	66.5
Bullish Weeks YTD:	5
Bearish Weeks YTD:	9
*S&P 500	3.5%
*DJIA	4.0%
*NASDAQ	4.7%

** Percentage change during current cycle*

Delta Market Sentiment Indicator Over the Past Year



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

The *Delta Wealth Accelerator* website is www.deltawealthaccelerator.com.

As always, if you have any questions or any interest in our tactical strategies and our wealth management solutions, please give us a call at (415) 249-6337 or email us at info@deltaim.com.
