DELTA
INVESTMENT
MANAGEMENT

One California Street, Suite 2800
San Francisco, CA 94111
(415) 249-6337
www.deltaim.com

AAII Chapter Meeting

2014

- Registered Investment Advisory firm – San Francisco
- Offer disciplined and proven tactical strategies
- Delta Tactical strategies provide strong downside protection in bearish markets and participation in up markets by making up to 100% allocation changes based on non-emotional, systematic model driven investment methodologies

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charles SCHWAB

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BARRON'S
The Dow Jones Business and Financial Weekly www.barrons.com

Market Laboratory • Indicators

MONEY RATES

	Latest	Prev.	Yr Ago Week
Discount Rate (FY)	%	%	%
Prime Rate (Jan)	3¼	3¼	3¼
Fed Funds Rate			
Avg effective rate	%	%	%
Avg weekly auction-r	0.07	0.09	0.14
T-Bills Rate			
13 weeks, Coupon Yield	0.058	0.055	0.079
13 weeks, Auction Rate	0.055	0.055	0.075
26 weeks, Coupon Yield	0.088	0.081	0.112
26 weeks, Auction Rate	0.085	0.080	0.110
Avg weekly auction-r	0.04	0.04	0.08
Broker Call Rate	3	3	3

FEDERAL RESERVE DATA BANK

Member Bank Reserve Digs. ($Bil. $)	Latest Week	Prev. Week Change	Year Ago Change
One week ended Jan 29:			
U.S. Gov't securities:			
Bought outright	3,836,983	+ 13,061	+1,282,948
Federal agency secur:			
Bought outright	34,811	—	-29,288
Reserve bank credit:			
Primary Credit	17	+ 11	+ 12
Secondary Credit	—	—	—
Seasonal Credit	18	+ 1	+ 15
Borrowed Reserves	198	192	-21.71
Free Reserves ###	2,448,388	2,341,918	4.88
Monetary Base	3,750,101	3,692,807	2.75

Fed capacity of pre-seasonal assistance provided.
Overdraft for reserves & check deposits.
Free reserves equal excess reserves minus discount window borrowings minus short-term advances of credit. Free reserves are distributed method of determining the degree of influence Fed policy, or when they are negative net borrowed reserves, tightness.

ADJUSTABLE MORTGAGE BASE RATES

	Jan 31	Jan 24	Yr Ago	Yr Chg
1 Year Treas Bills	0.11	0.11	0.15	-26.67
2 Year Treas Notes	0.48	0.40	0.26	53.85
3 Year Treas Notes	0.86	0.79	0.39	189.13
5 Year Treas Notes	1.65	1.65	0.79	108.86
10 Year Treas Notes	2.82	2.86	1.90	48.42
30 Year Treas Bds	3.47	3.53	2.66	30.45
11th District % Cost	0.784	0.783	1.071	-26.86
FHFB Contract Rate	4.23	4.21	3.29	28.58

Net annualized yields adjusted for constant maturity. Federal Home Loan Bank Board. LIBF-Cost of funds borrowed by discount houses from banks.

DELTA MARKET SENTIMENT INDICATOR

The Delta MSI measures the position of ~3,600 stocks relative to an intermediate-term moving average crossover (MAC) point. When greater than 50% of the stocks followed are above this MAC point, the market is bullish and equities are attractive. When the indicator is below 50%, risk is elevated and stock exposures should be reduced. Manager uses discretion on asset allocation when MSI is 50% +/- 3%.

Current Sentiment	Last Week	2 Weeks Ago	3 Weeks Ago
BULLISH	52.1%	67.4%	65.2%

Current Market Exposure: 100% Equities, 0% Bonds, 0% Cash

Source: Delta Investment Management
www.deltaim.com, (415) 249-6337

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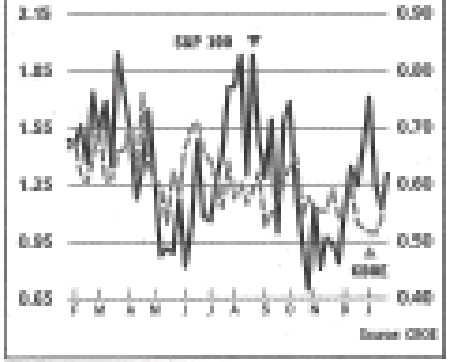
CBOE PUT/CALL RATIO vs S&P 100

Readings in the CBOE equity put-call ratio of 68.100 and in the S&P 100 of 1252.00 are considered bullish, for instance. Bearish signals flash when the equity put-call level reaches the vicinity of 30.000 and the index ratio hits 76.100.



INVESTOR SENTIMENT READINGS

High bullish readings in the Consensus stock index or in the Market Vane stock index usually are signs of Market Lows; low ones, market bottoms.

	Last Week	2 Weeks Ago	3 Weeks Ago
Consensus Index			
Consensus Bullish Sentiment	69%	71%	73%
Source: Consensus Inc., P.O. Box 530526, Independence, Mo.			
AAII Index:			
Bullish	32.2%	35.7%	39.8%
Bearish	33.8	33.3	31.5
Neutral	34.1	31.1	28.9
Source: American Association of Individual Investors, 625 N. Michigan Ave., Chicago, Ill. 60611 (312) 280-0170.			
Market Vane			
Bullish Consensus	61%	65%	68%
Source: Market Vane, P.O. Box 90490, Pasadena, CA 91109 (626) 395-1458.			
TIM Group Market Sentiment			
Indicator (Forecast/Fact Average)	54.5%	52.7%	54.3%
Source: TIM Group, 101 Arch St., Suite 1700, Boston, MA 02110 (617) 912-0900, timsupport@timgroup.com			

MONEY SUPPLY

Money Supply ($Bil. S eas. adj.)	Latest	Prev.	Yr. Ago	YTD % Chg
Week ended January 20				
M1	2877.5	r2880.3	2470.6	8.37
M2	11012.2	r11087.9	10403.4	5.88
Two Weeks ended January 13				
M1 Multiplier (St. Louis Fed)	0.699	0.710	0.681	-28.66
Monthly Money Supply				
Month ended December				
M1	r2868.4	r2873.3	2480.1	8.54
M2	r10958.9	r10983.9	10402.4	5.35

FOREIGN EXCHANGE

Friday, January 17, 2014

The foreign-exchange mid-range rates below apply to trading among banks in amounts of $1 million and more, as quoted at 4 p.m. Eastern time by Reuters and other sources. Retail transactions provide fewer units of foreign currency per dollar.

Country	Foreign Currency to U.S. $	Foreign Currency to U.S. $ Last Fri.	U.S. $ in Foreign Currency Fri.	U.S. $ in Foreign Currency Last Fri.
Argentina (Peso) r	.1247	.1250	8.0180	7.9999
Australia (Dollar)	.8758	.8694	1.1421	1.1505
1-month forward	.8739	.8687	1.1443	1.1516
3-months forward	.8703	.8650	1.1489	1.1560
6-months forward	.8658	.8592	1.1550	1.1639
Bahrain (Dinar)	2.6529	2.6529	.3770	.3769
Brazil (Real)	.4145	.4179	2.4128	2.3932
Canada (Dollar)	.8885	.8877	1.1256	1.1266
Chile (Peso)	.001655	.001657	604.06	603.58
China (Renminbi)	.1650	.1654	6.0609	6.0472
Colombia (Peso)	.000491	.000500	2035.93	2000.00
Czech. Rep. (Koruna)				
Commercial rate	.04991	.04979	20.035	20.083
Denmark (Krone)	.1808	.1803	5.5314	5.5467
Ecuador (US Dollar)	1.0000	1.0000	1.0000	1.0000
Egypt (Pound) r	.1457	.1457	6.8668	6.8611
Hong Kong (Dollar)	.1288	.1288	7.7645	7.7628
Hungary (Forint)	.004519	.004488	221.34	222.86
India (Rupee)	.01599	.01594	62.529	62.726
Indonesia (Rupiah)	.0000824	.0000823	12133	12150
Israel (Shekel)	.2864	.2867	3.4918	3.4888
Japan (Yen)	.009859	.009775	101.44	102.30
1-month forward	.009871	.009777	101.33	102.29
3-months forward	.009903	.009799	101.00	102.05
6-months forward	.009951	.009848	100.50	101.52
Jordan (Dinar)	1.4151	1.4147	.7067	.7069
Kuwait (Dinar)	3.5586	3.5436	.2810	.2822
Lebanon (Pound)	.0006649	.0006651	1504.10	1503.45
Malaysia (Ringgit) s	.3075	.3092	3.2511	3.2337
Mexico (Peso)				
Floating rate	.0765	.0763	13.0697	13.1085
New Zealand (Dollar)	.8089	.8003	1.2362	1.2493
Norway (Krone)	.1703	.1659	5.8733	6.0288
Pakistan (Rupee)	.00969	.00969	103.226	103.208
Peru (new Sol)	.3545	.3544	2.8205	2.8215
Philippines (Peso)	.02267	.02267	44.118	44.111
Poland (Zloty)	.3173	.3201	3.1518	3.0987
Russia (Ruble) s	.02943	.02938	33.171	34.043
Saudi Arabia (Riyal)	.2666	.2666	3.7509	3.7503
Singapore (Dollar)	.7931	.7933	1.2607	1.2606
South Africa (Rand)	.0889	.0903	11.2357	11.0756
South Korea (Won)	.0009249	.0009259	1081.10	1080.00
Sweden (Krona)	.1537	.1533	6.5053	6.5230
Switzerland (Franc)	1.1035	1.1103	.9062	.9007
1-month forward	1.1036	1.1102	.9062	.9008
3-months forward	1.1039	1.1103	.9061	.9007
6-months forward	1.1037	1.1104	.9060	.9006
Taiwan (Dollar)	.03296	.03303	30.339	30.271
Thailand (Baht)	.03059	.03049	32.691	32.793
Turkey (New Lira) s	.4433	.4388	2.2557	2.2787
U.K. (Pound)	1.5439	1.5484	.6503	.6500
1-month forward	1.5436	1.5480	.6504	.6500
3-months forward	1.5430	1.5473	.6507	.6471
6-months forward	1.5418	1.5461	.6503	.6470

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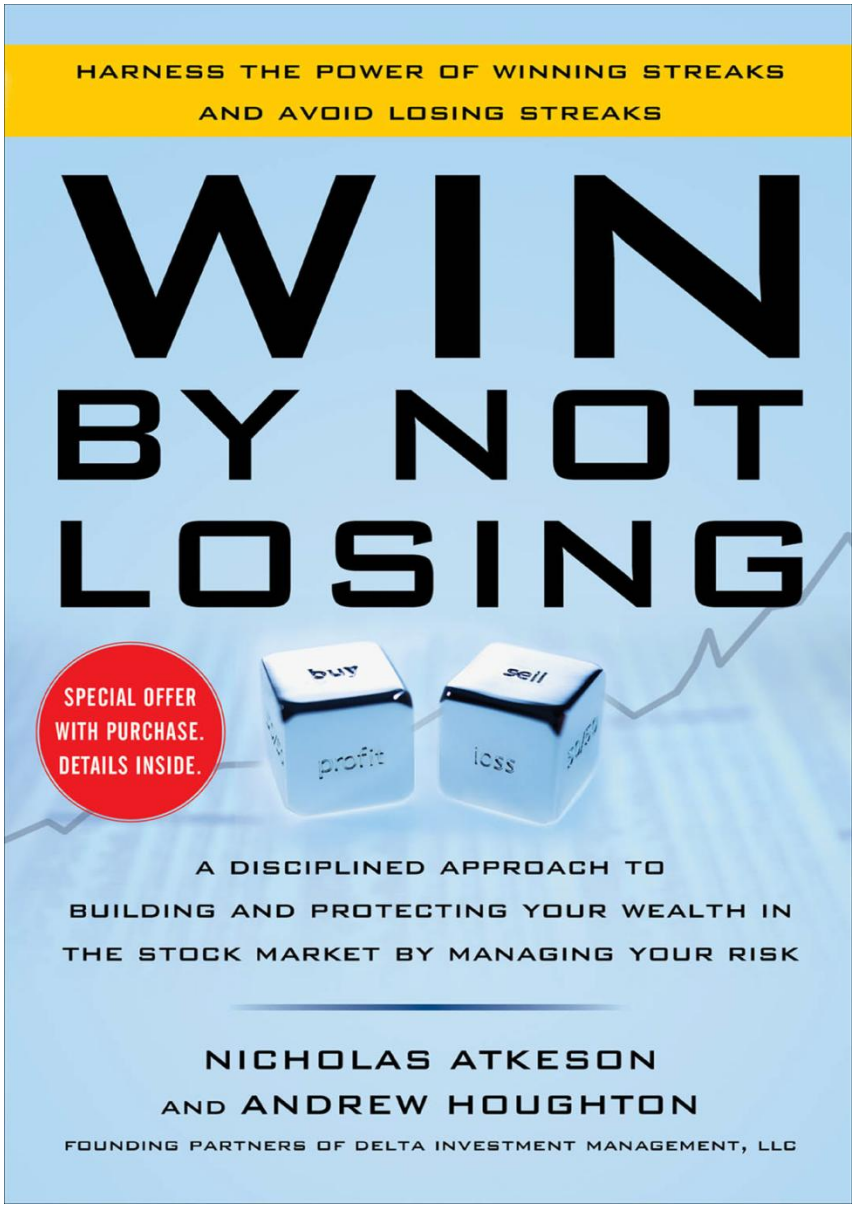
AAII
Special: $20

Books Available
Today While
Supply Lasts



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October 15, 2014
1:51pm ET
S&P 500 -54
Dow Jones Industrial Average -460

"Thanks to your book and these emails I went to cash a few weeks back. Thank you." RT

October 24, 2014
9:22am PT

"I want to thank you for your book. I saved over $30,000 because of your book…let me explain…" PJW, M.D.

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Delta Wealth Accelerator
a weekly commentary on investing

www.deltawealthaccelerator.com

AAII Journal
American Association of Individual Investors
October 2014 VOLUME XXXVI, No. 10

Cover Story: “The Different Ways to Allocate Your Portfolio”

Robert Arnott, CEO of Research Affiliates, and manager of the PIMCO All Asset Strategy.

“To me, the more important opportunities are not so much in individual stocks as they are in portfolio construction.”

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Investment Objective:

Attractive, Steady Returns with Reasonable Volatility

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The Bond and Interest Rate Investment Challenge

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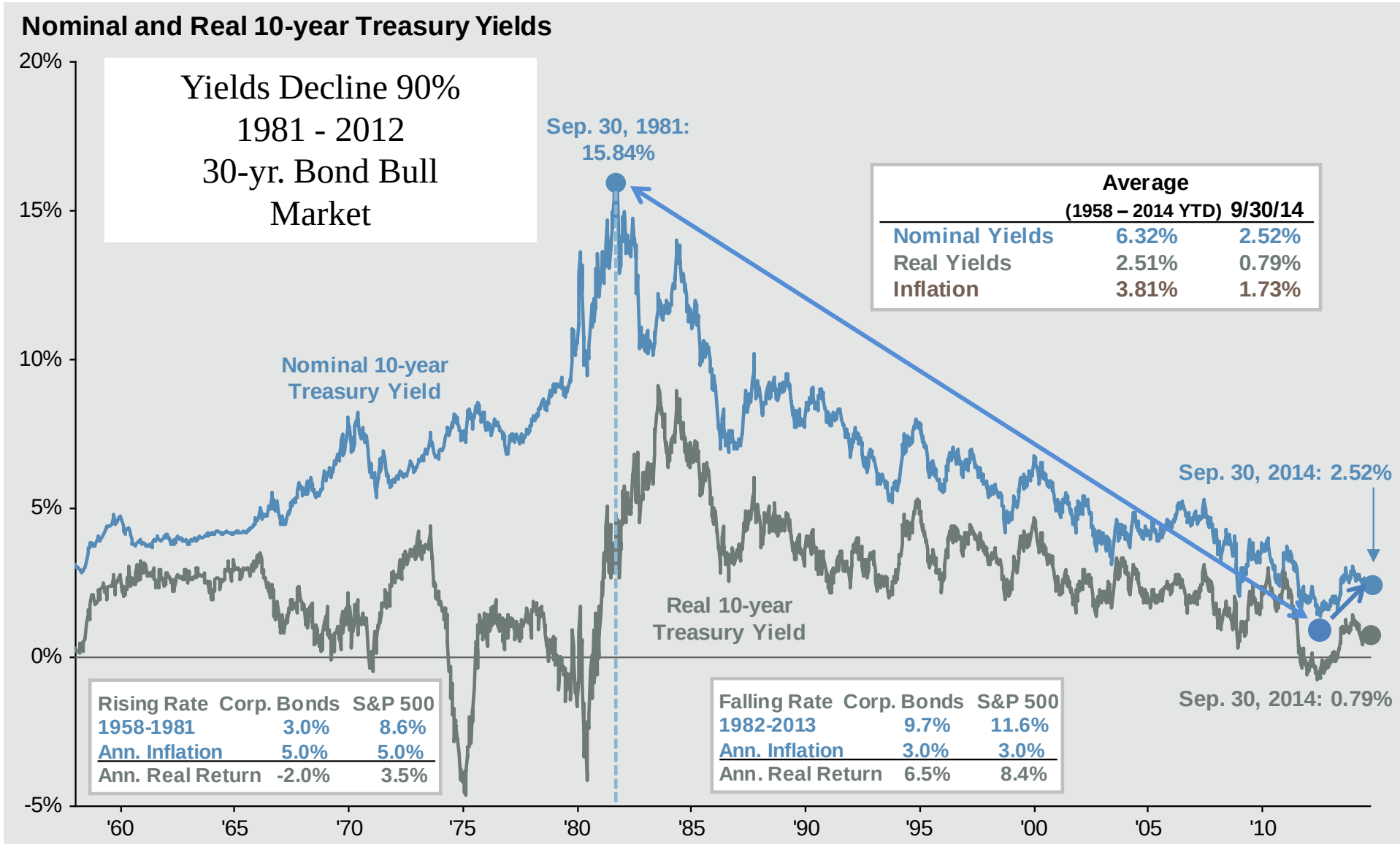
The 30 Year Bond Bull Market…



Source: Federal Reserve, BLS, J.P. Morgan Asset Management.

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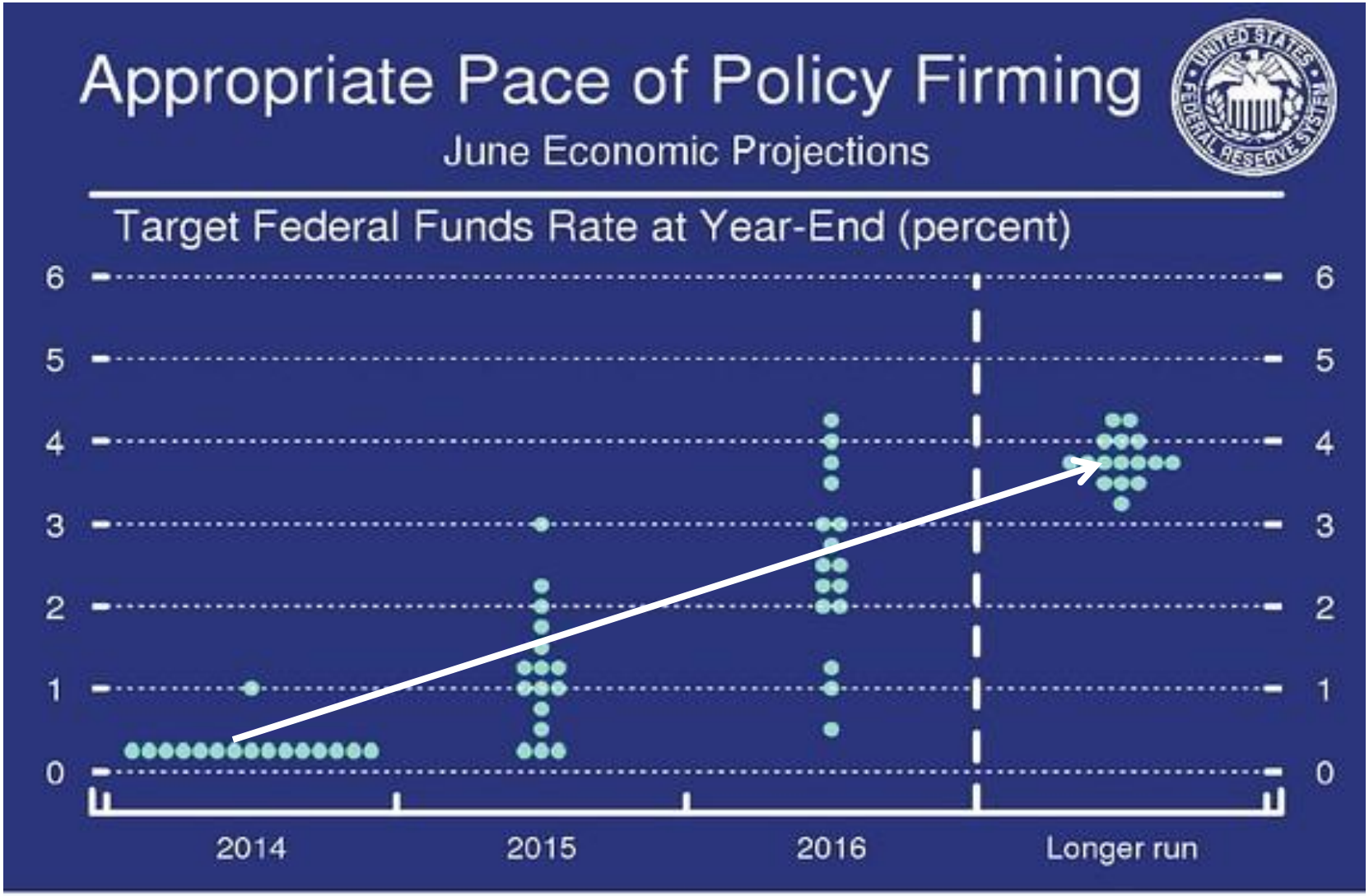
Interest Rates

Fed Fund Rate Projections – June, 2014



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Robert Arnott, CEO of Research Affiliates, and manager of the PIMCO All Asset Strategy.

“The official core inflation is hovering around 2%. We think the CPI inflation will likely top 5% before the decade is out, with a 40-50% risk that it could reach as high as 10%.”

September, 2014

Inflation destroys the purchasing power of your savings.

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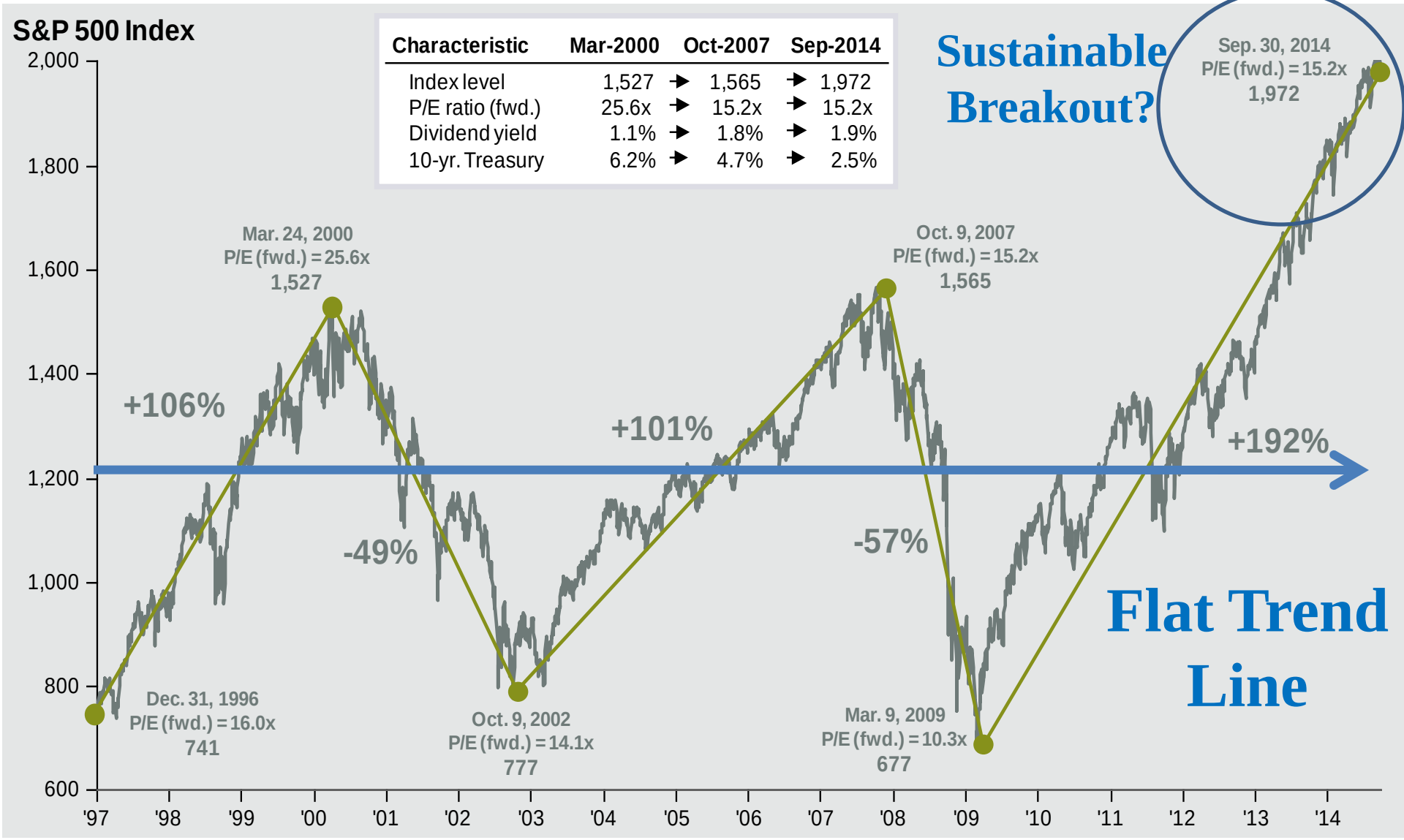
The Stock Investment Challenge

Volatility without Overall Market Appreciation



Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management.

Problem 1: Stock Investment Not Growing As Expected

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Uncertain Future

Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management.

Problem 2: Protecting Investment From Major Loss

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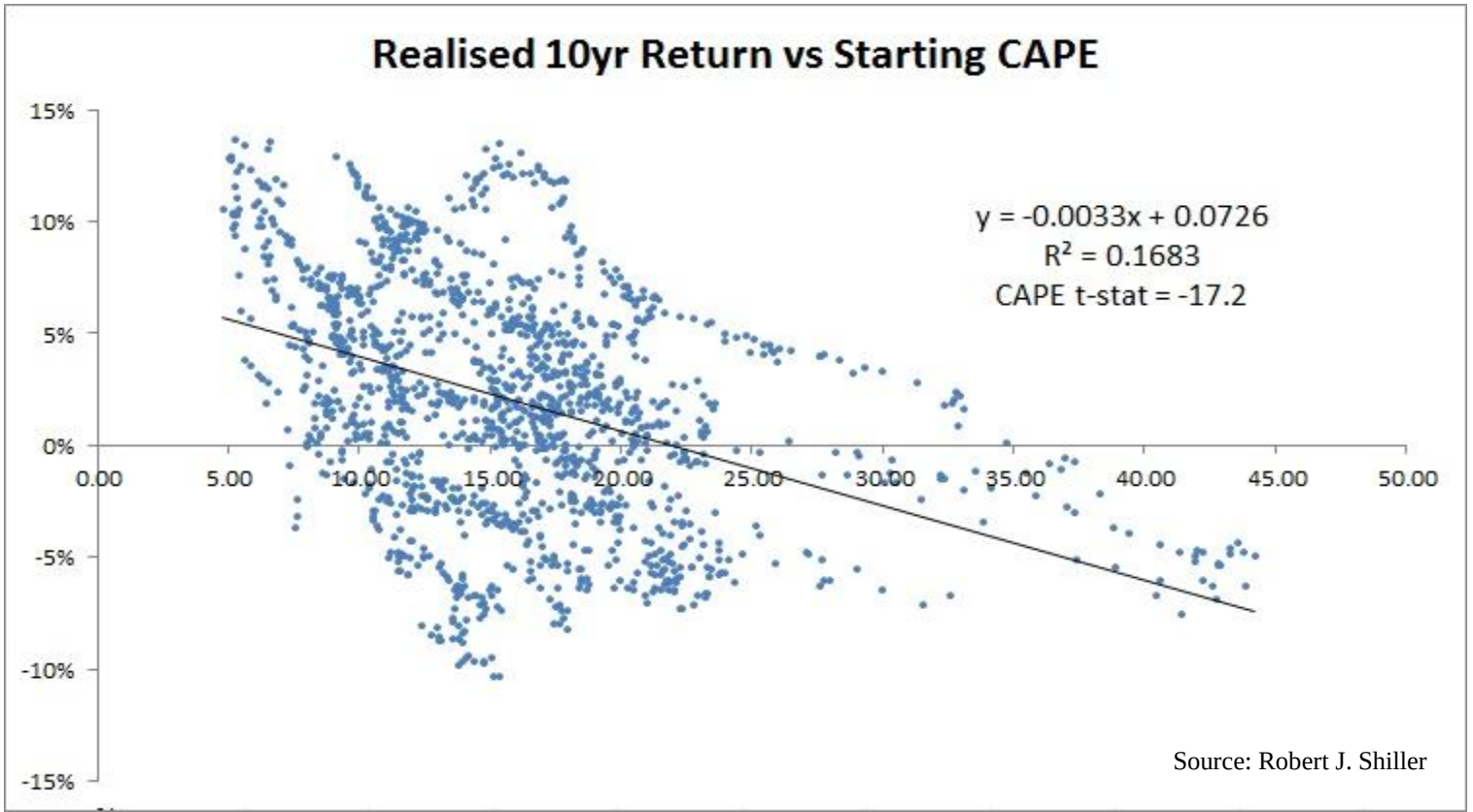
Robert Shiller – August 16, 2014 – New York Times

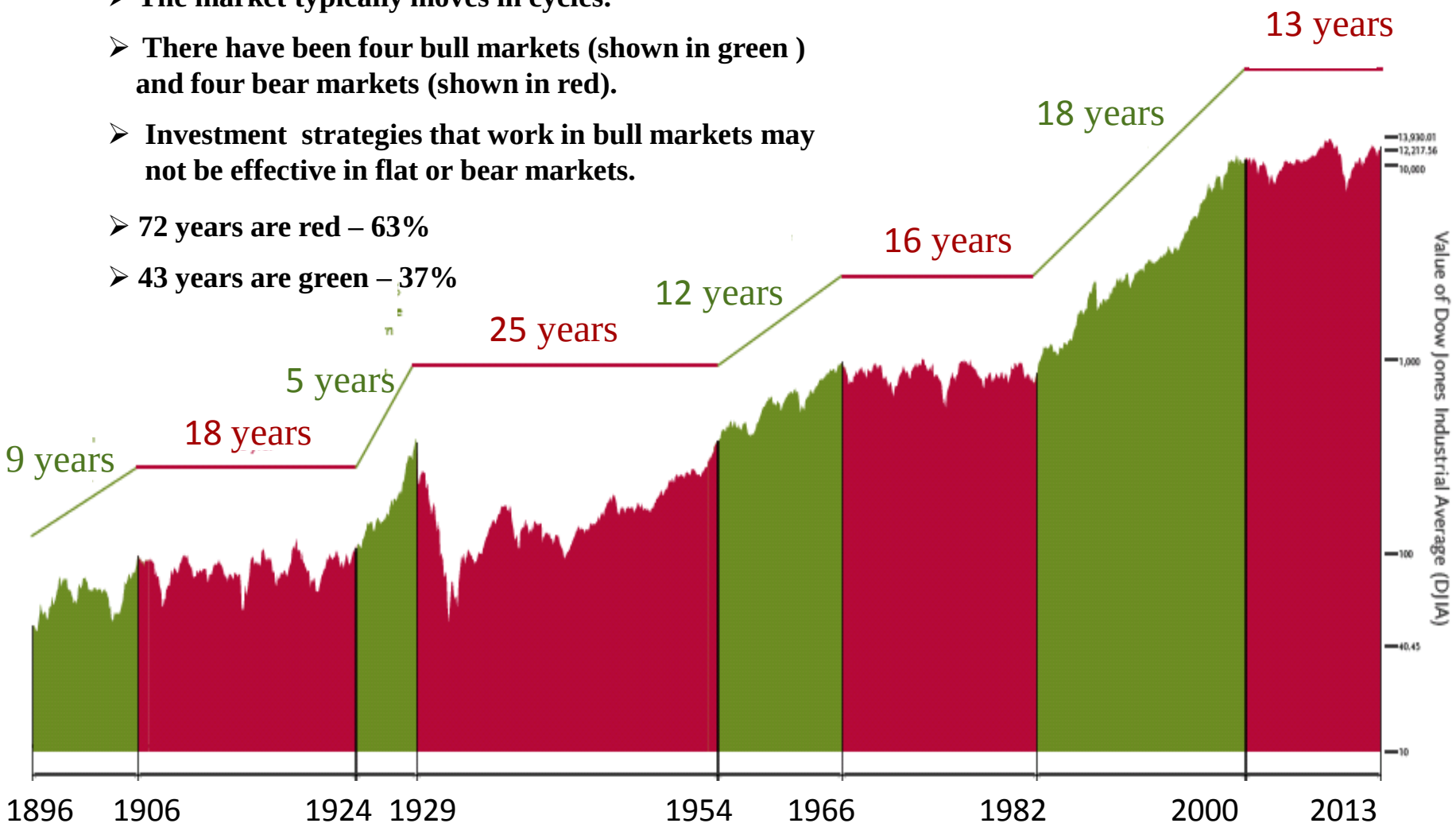
The CAPE (Cyclically Adjusted Price-Earnings ratio) – "Now it is above 25, a level that has been surpassed since 1881 in only three previous periods: the years clustered around 1929, 1999 and 2007. Major market drops followed those peaks.



A Longer Term Look
At the Stock Market

117 Year History of the Market: 1896 – 2013

- **The market typically moves in cycles.**
- **There have been four bull markets (shown in green) and four bear markets (shown in red).**
- **Investment strategies that work in bull markets may not be effective in flat or bear markets.**
- **72 years are red – 63%**
- **43 years are green – 37%**



Dow Jones Industrial Average from December 1896 through December 2013
Graph created by Guggenheim Investments using data from www.dowjones.com

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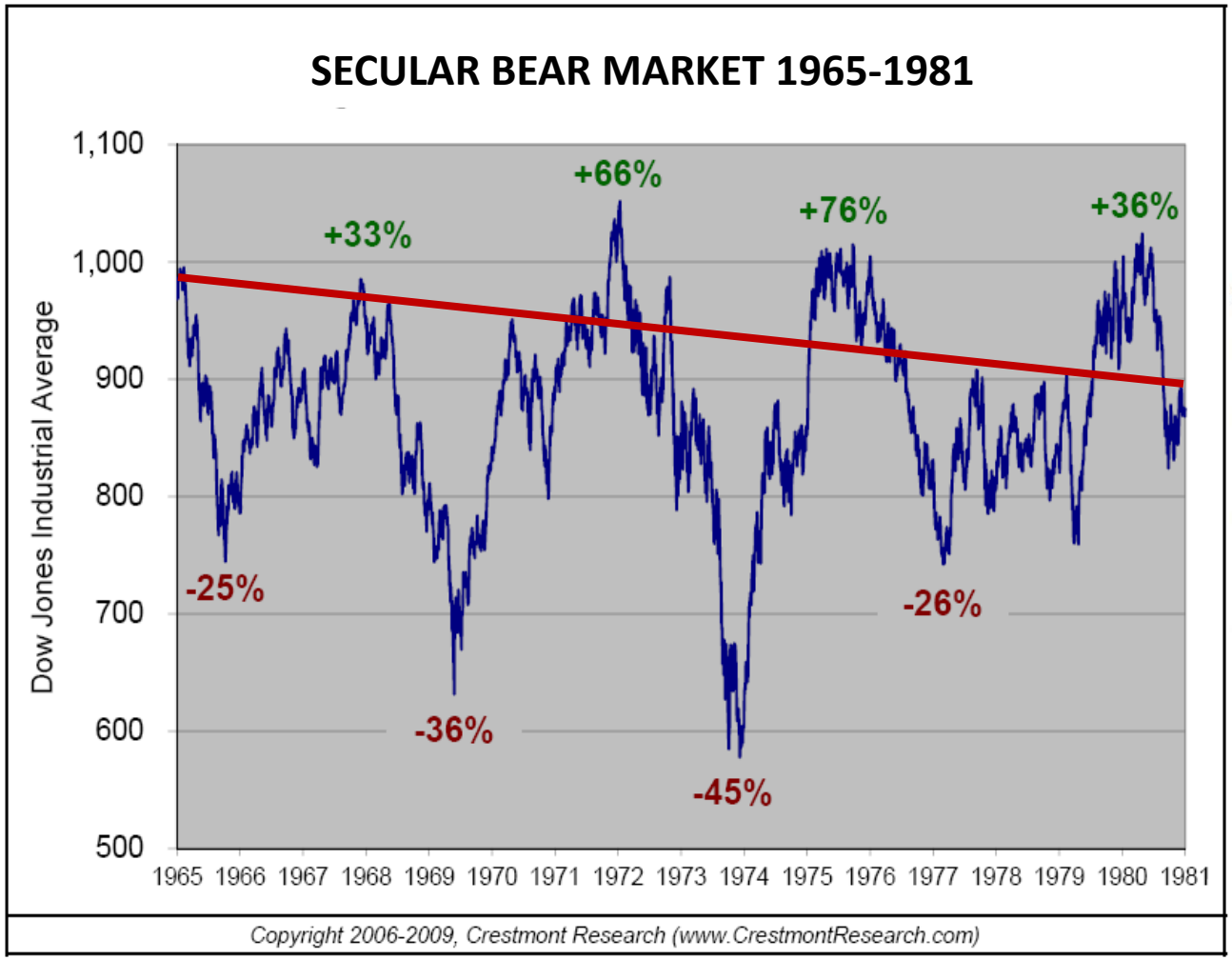
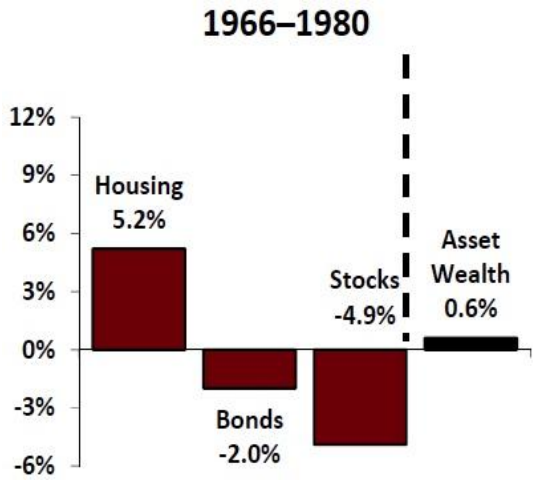
Recent History of Bear Markets

Over the past 30 years, the U.S. stock market has suffered a **Bear Period** (greater than 20% decline) about once **every 6 years** or **17%** of the time.

Bear Market	Duration (Months)	Decline	New Market High	Recovery (Months)
Nov. 1980-Aug.1982	22	-28.0%	Nov. 1982	3
Aug. 1987-Oct.1987	3	-35.9%	Jul. 1989	21
Jul. 1990-Oct.1990	4	-20.3%	Feb.1991	4
Jul 1998-Oct. 1998	4	-22.4%	Nov. 1998	1
Mar. 2000-Oct. 2002	32	-50.5%	Jul. 2007	57
Oct. 2007-Mar. 2009	17	-55%	Apr. 2013	49

Lost Time





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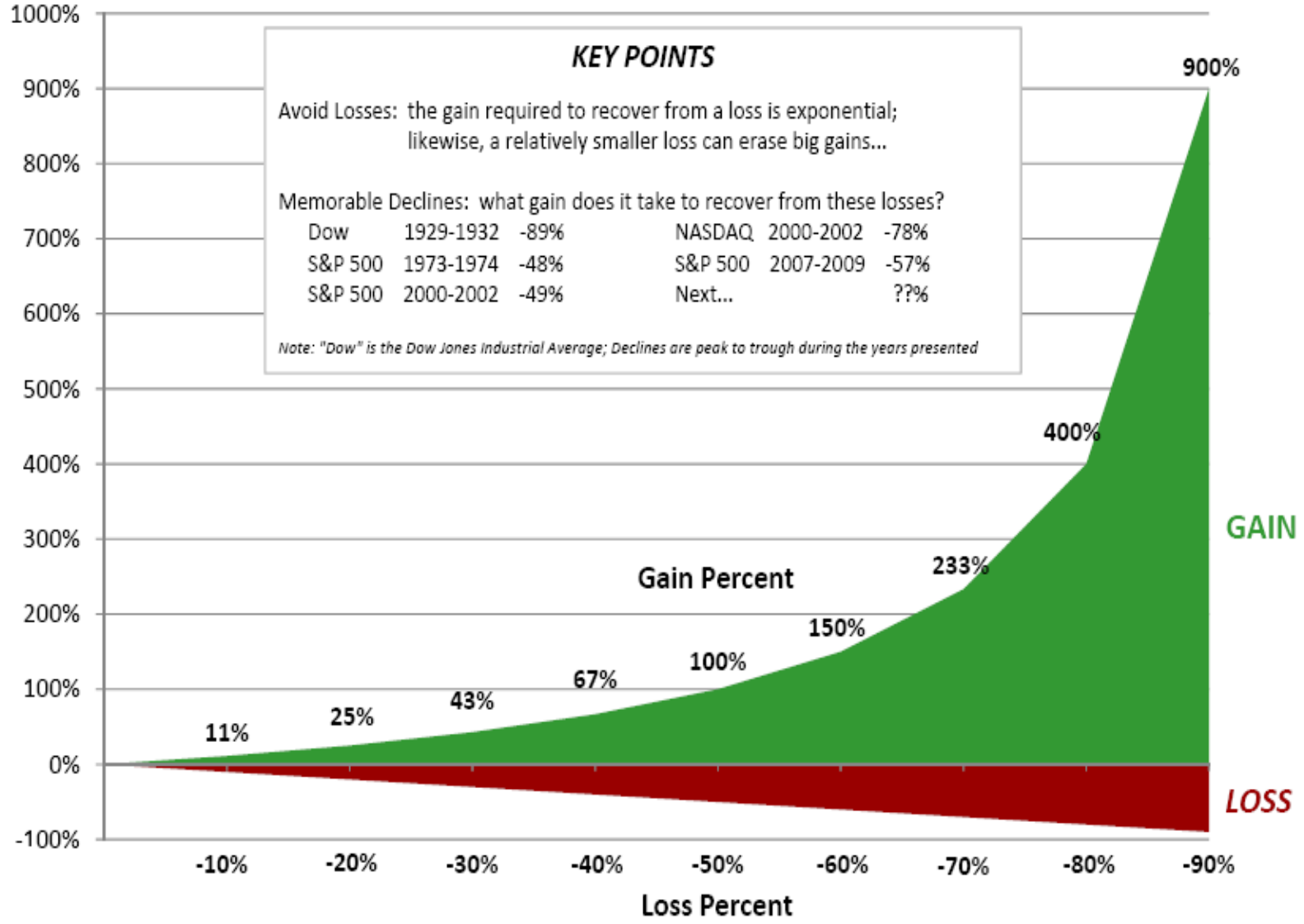
THE IMPACT OF LOSSES

Why The First Rule Of Investing Is Also The Second Rule...



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Avoiding the Downs is More Important Than Catching the Ups

The market's worst days have had a large effect on returns

Growth of $1 in the S&P 500 Index from Dec. 31, 1927 to Dec. 31, 2011

Days	Growth of $1	Cumulative Return (%)
Capture 10 best and worst	71.21	7,021.18
Miss 10 best	23.62	2,262.10
Miss 10 worst	226.14	22,514.32
Miss 10 best and worst	75.01	7,401.19
Cash	19.32	1,831.52

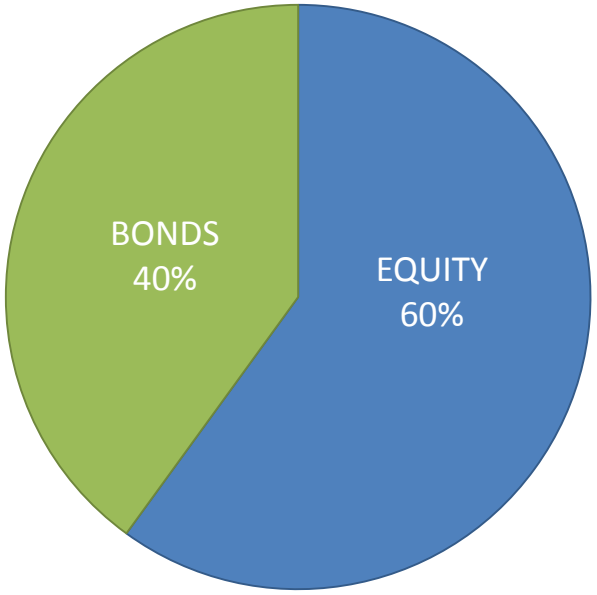
Sources: Bloomberg L.P., Invesco, Morningstar. ©2012 Morningstar, Inc. All rights reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance cannot guarantee comparable future results. Cash results are based on the Ibbotson U.S. 30-Day T-Bill Index.

Investment Solutions

How Do You Grow and Protect Your Portfolio?

Traditional Answer: Diversified Equity/Bond portfolio rebalanced on a periodic basis

Traditional 60% / 40% Asset Allocation



Traditional 60% / 40% Performance

12/26/2003 Through 9/30/2014

Net Annualized Returns since inception: 6.9%

Where's the Protection?

Maximum drawdown **-41.6%**
Length 41 Months (**3 and a half years**)

Average monthly positive performance +2.35%
Average monthly negative performance -2.7%

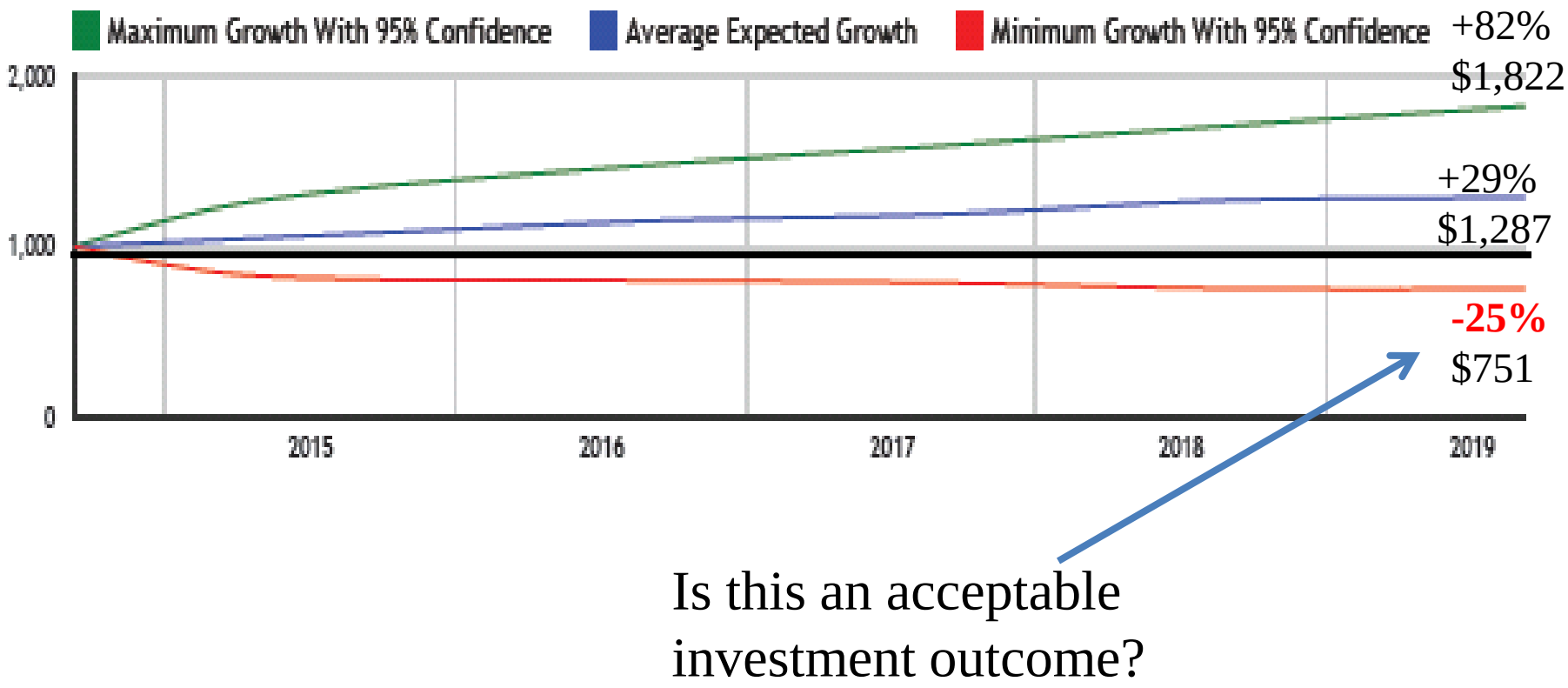
Best Month 17.6%
Worst Month **-22.8%**

Up-capture ratio to benchmark (VTI) 50%
Down-capture ratio to benchmark (VTI) **72%**

Performance data based on the Dimensional Global Allocation 60/40 Portfolio DGSIX, Inception Date 12/24/2003

Expected Future Growth of $1,000 for the Next 5 Years
Diversified 60/40 Portfolio

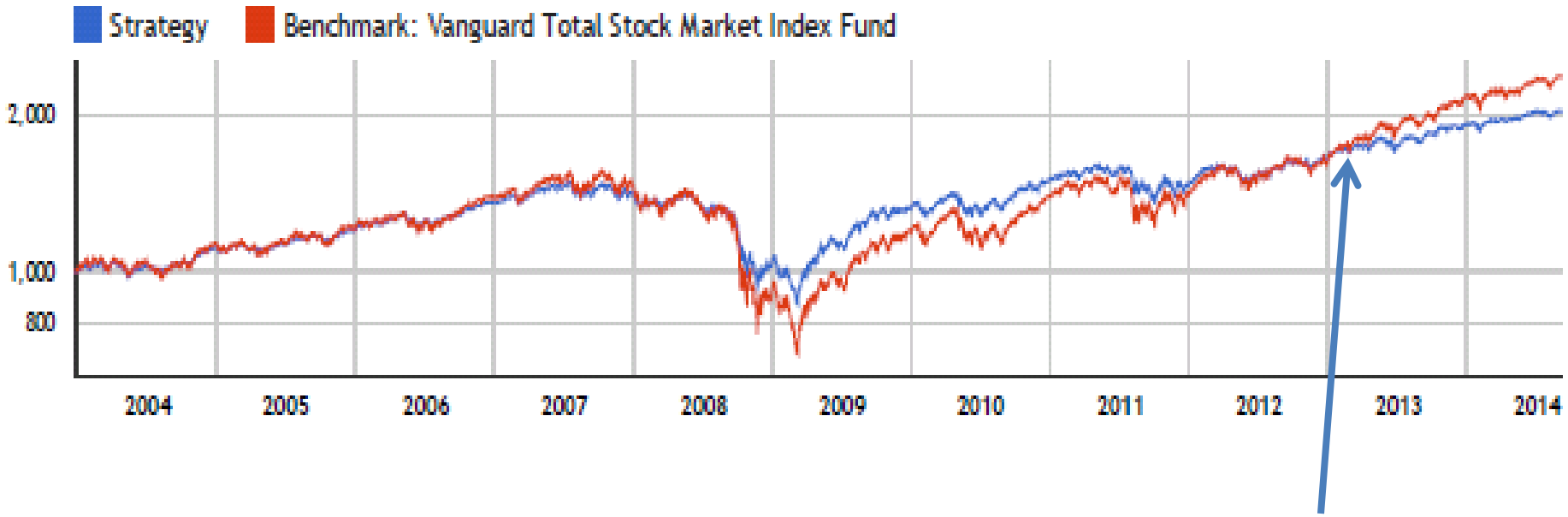
Based on historical performance DGSIX – 95% confidence interval



Past performance does not guarantee future results. Please see important disclosures at end of presentation.

Performance relative to Vanguard Total Stock Market Index

12/26/2003 Through 9/5/2014



10-yr. U.S. Treasury 2013 – Sep, 2014

Bonds begin period of multi-year secular interest rate headwinds?

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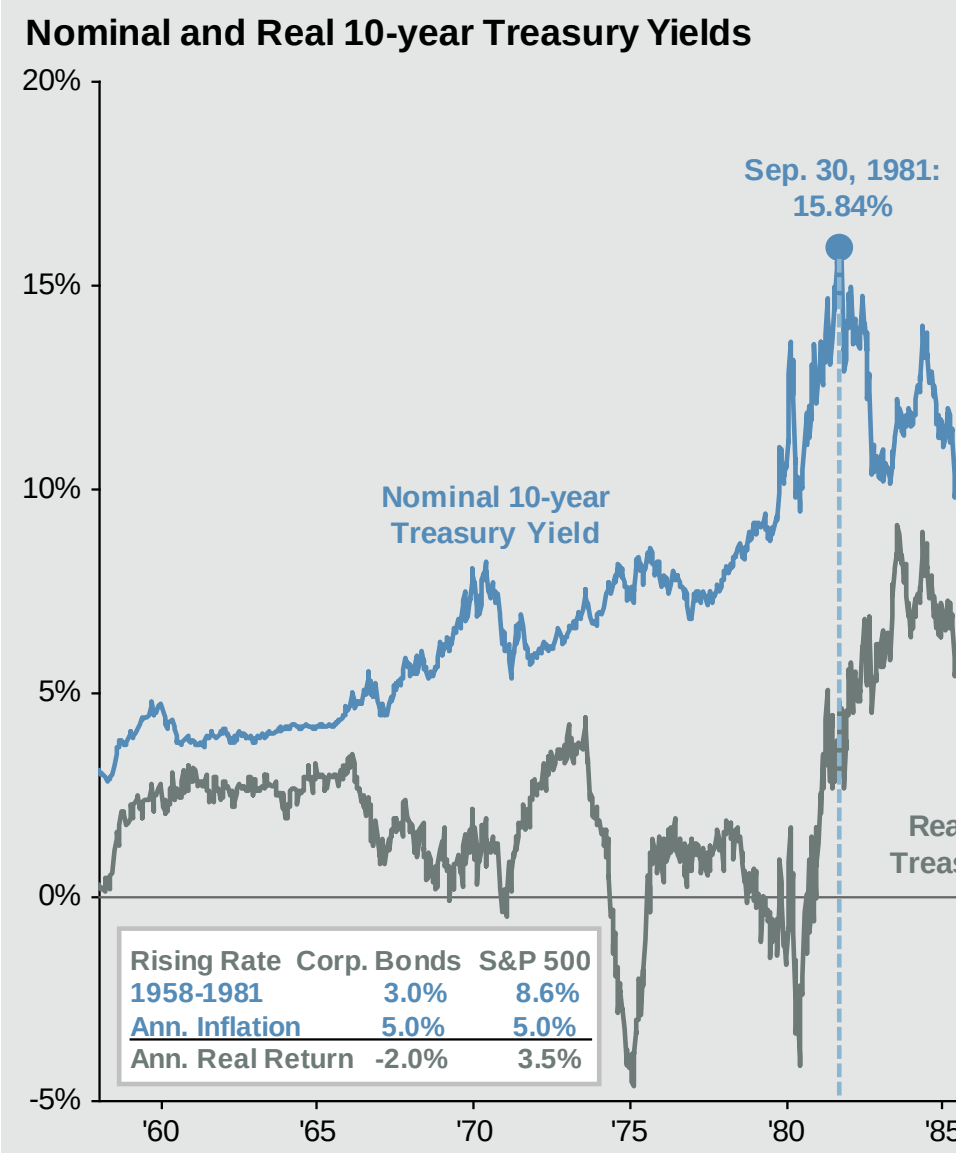
Traditional 60% / 40% Performance



Source: Federal Reserve, BLS, J.P. Morgan Asset Management.

Rising Rates: 1/1963 – 9/1981

Annual Return:

S&P 500	1.13%
60/40	**-0.24%**

Source: Newfound Research. 1963 is the first year for the information presented because it is the first date with daily interest rate data available from the Federal Reserve. Past performance does not guarantee future results.

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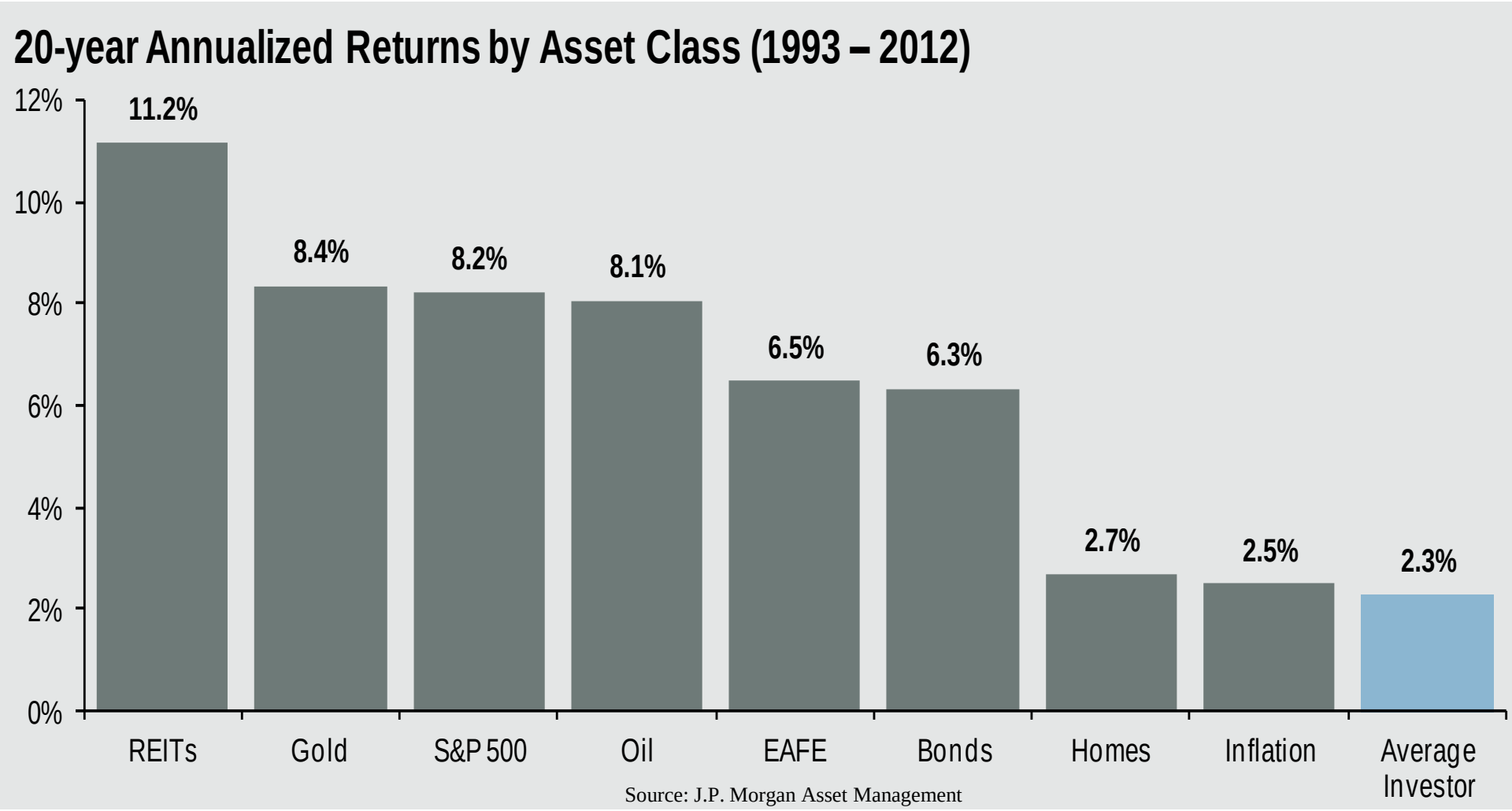
How Do You Grow and Protect Your Portfolio?

Frequent Answer:

Emotional Decision Making
Chasing Performance

How Do you Grow and Protect Your Portfolio?

Average Investor Returns – Past 20 Years



Source: J.P. Morgan Asset Management

Emotions

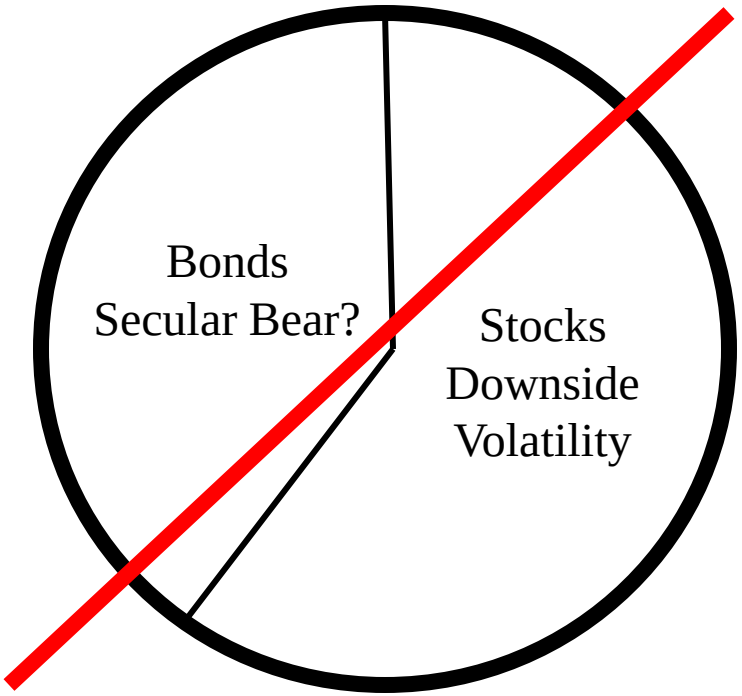
		Mutual Fund Flows															
Billions, USD	**AUM**	**YTD 2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Domestic Equity	6,175	(20)	18	(159)	(133)	(81)	(28)	(149)	(69)	(3)	17	100	120	(25)	57	258	176
World Equity	2,214	72	142	6	4	57	26	(80)	142	151	107	72	24	(4)	(23)	58	11
Taxable Bond	2,939	50	(21)	252	127	219	301	22	100	45	21	0	39	125	76	(36)	8
Tax-exempt Bond	545	15	(58)	50	(12)	11	70	8	11	15	5	(15)	(7)	17	12	(14)	(12)
Hybrid	1,382	31	73	47	40	35	20	(26)	40	20	43	53	39	8	7	(37)	(14)
Money Market	2,582	(137)	15	(0)	(124)	(525)	(539)	637	654	245	62	(157)	(263)	(46)	375	159	194

Source: J.P. Morgan Asset Management

Common Causes of Underperformance:

- ❑ Limited Investment Horizon: Severity of downturn unacceptable
- ❑ Behavioral Bias: Down hurts 2x as much as up

Pie Based Investing



Emotions Based Investing

How Do You Grow and Protect Your Portfolio?

Solution: Diversified Tactical

Agile, Disciplined, Systematic Investing

- Avoid major bearish moves
- Participate in bullish moves
- Diversification in Methods and Asset Types helps achieve attractive returns and mitigate risk

DELTA INVESTMENT MANAGEMENT

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (1994–2013)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
MSCI EAFE 7.78%	S&P 500 Growth 38.13%	S&P 500 Growth 23.97%	S&P 500 Growth 36.52%	S&P 500 Growth 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	Barclays Agg 10.26%	MSCI Emerging Markets 56.28%	MSCI Emerging Markets 25.95%	MSCI Emerging Markets 34.54%	MSCI Emerging Markets 32.59%	MSCI Emerging Markets 39.78%	Barclays Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	Barclays Agg 7.84%	MSCI Emerging Markets 18.63%	Russell 2000 Growth 43.30%
S&P 500 Growth 3.13%	S&P 500 37.58%	S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	Russell 2000 Growth 43.09%	Barclays Agg 11.63%	Barclays Agg 8.43%	Barclays Corp High Yield -1.41%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Barclays Corp High Yield -26.16%	Barclays Corp High Yield 58.21%	Russell 2000 26.85%	Barclays Corp High Yield 4.98%	Russell 2000 Value 18.05%	Russell 2000 38.82%
S&P 500 1.32%	S&P 500 Value 36.99%	S&P 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P 500 Growth 28.24%	S&P 500 Value 6.08%	Barclays Corp High Yield 5.28%	MSCI Emerging Markets -6.00%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P 500 Value 5.82%	Russell 2000 Value 23.48%	S&P 500 Growth 9.13%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 Value 24.50%	S&P 500 Growth 4.65%	S&P 500 Value 17.68%	Russell 2000 Value 34.52%
S&P 500 Value -0.64%	Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P 500 Value 29.98%	S&P 500 Value 14.69%	MSCI EAFE 26.96%	Russell 2000 -3.02%	Russell 2000 2.49%	Russell 2000 Value -11.43%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 4.91%	S&P 500 Value 20.81%	Russell 2000 Growth 7.05%	Russell 2000 -33.79%	MSCI EAFE 31.78%	MSCI Emerging Markets 19.20%	S&P 500 2.11%	MSCI EAFE 17.32%	S&P 500 Growth 32.75%
Barclays Corp High Yield -1.03%	Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	Barclays Agg 8.70%	Russell 2000 21.26%	Barclays Corp High Yield -5.86%	MSCI Emerging Markets -2.37%	MSCI EAFE -15.94%	MSCI EAFE 38.59%	S&P 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 18.37%	Barclays Agg 6.97%	S&P 500 Growth -34.92%	S&P 500 Growth 31.57%	Barclays Corp High Yield 15.12%	S&P 500 Value -0.48%	Russell 2000 16.35%	S&P 500 32.39%
Russell 2000 Value -1.54%	Russell 2000 Value 25.75%	Barclays Corp High Yield 11.35%	Russell 2000 Growth 12.95%	Barclays Corp High Yield 1.87%	S&P 500 21.04%	S&P 500 -9.11%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	S&P 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%	S&P 500 15.79%	S&P 500 5.49%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 Value 15.10%	Russell 2000 Growth -2.91%	S&P 500 16.00%	S&P 500 Value 31.99%
Russell 2000 -1.82%	Barclays Corp High Yield 19.18%	Russell 2000 Growth 11.26%	Barclays Corp High Yield 12.76%	Russell 2000 Growth 1.23%	S&P 500 Value 12.73%	MSCI EAFE -14.17%	S&P 500 Value -11.71%	S&P 500 Value -20.85%	Barclays Corp High Yield 28.97%	Barclays Corp High Yield 11.13%	Russell 2000 Growth 4.15%	Russell 2000 Growth 13.35%	S&P 500 Value 1.99%	Russell 2000 Growth -38.54%	S&P 500 26.47%	S&P 500 15.06%	Russell 2000 -4.18%	Barclays Corp High Yield 15.81%	MSCI EAFE 22.78%
Russell 2000 Growth -2.43%	Barclays Agg 18.46%	MSCI EAFE 6.05%	Barclays Agg 9.64%	Russell 2000 -2.55%	Barclays Corp High Yield 2.39%	S&P 500 Growth -22.08%	S&P 500 -11.89%	S&P 500 -22.10%	S&P 500 28.68%	S&P 500 10.88%	S&P 500 Growth 4.00%	Barclays Corp High Yield 11.85%	Barclays Corp High Yield 1.87%	S&P 500 Value -39.22%	S&P 500 Value 21.17%	S&P 500 Growth 15.05%	Russell 2000 Value -5.50%	S&P 500 Growth 14.61%	Barclays Corp High Yield 7.44%
Barclays Agg -2.92%	MSCI EAFE 11.21%	MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Barclays Agg -0.82%	Russell 2000 Growth -22.43%	S&P 500 Growth -12.73%	S&P 500 Growth -23.59%	S&P 500 Growth 25.66%	S&P 500 Growth 6.13%	Barclays Corp High Yield 2.74%	S&P 500 Growth 11.01%	Russell 2000 -1.57%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%	MSCI EAFE -12.14%	Russell 2000 Growth 14.59%	Barclays Agg -2.02%
MSCI Emerging Markets -7.32%	MSCI Emerging Markets -5.21%	Barclays Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	Barclays Agg 4.10%	Barclays Agg 4.34%	Barclays Agg 2.43%	Barclays Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	Barclays Agg 5.93%	Barclays Agg 6.54%	MSCI Emerging Markets -18.17%	Barclays Agg 4.21%	MSCI Emerging Markets -2.27%

DELTA INVESTMENT MANAGEMENT

Diversified Tactical:

Flow to Strength away from Weakness

Risk Mitigation: Can Shift 100% to Defense

Diversified Methods
For Participating In Bull Markets And Mitigating Risk In Bear Markets

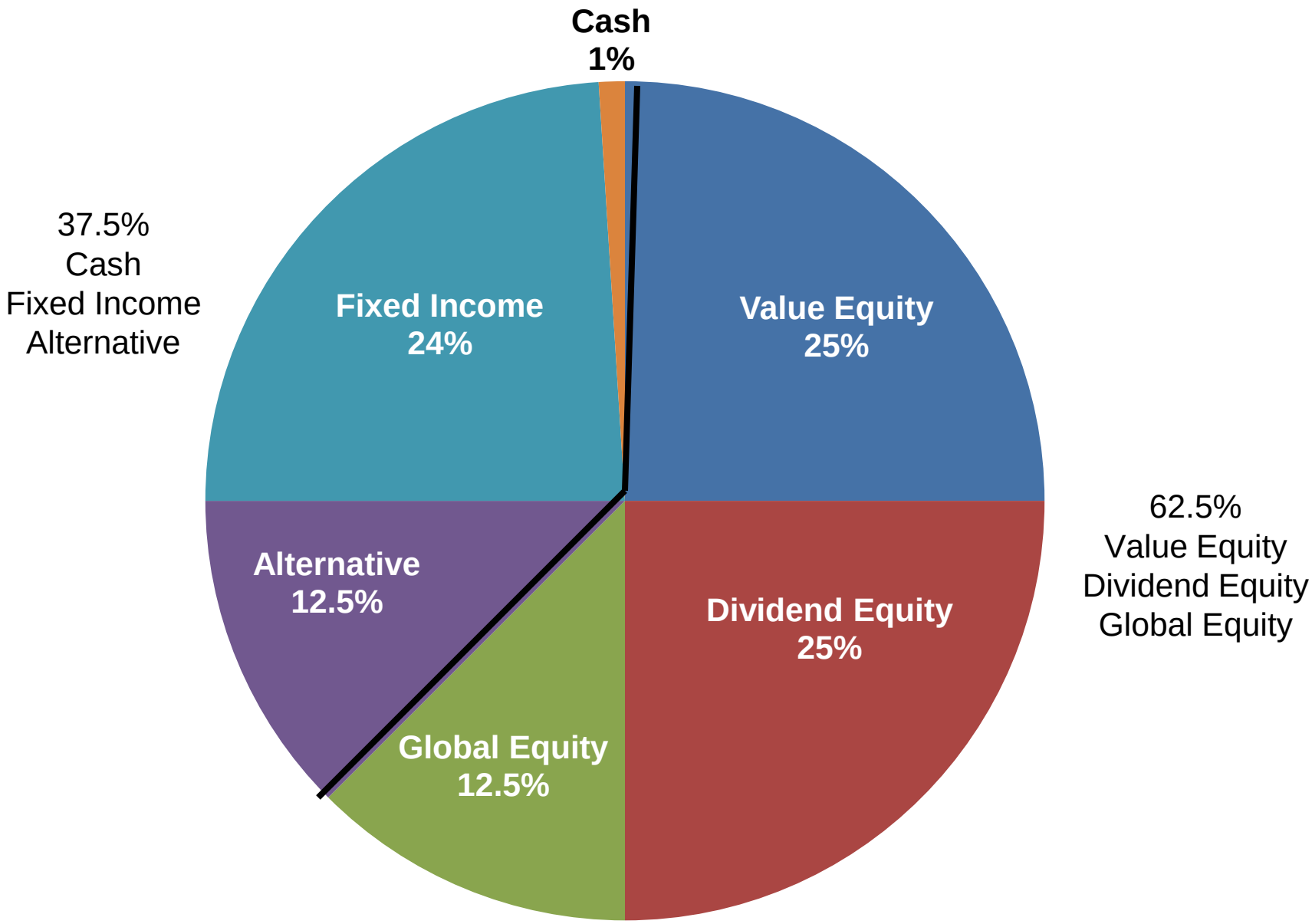
Diversified Assets
For Participating In Bull Markets And Mitigating Risk In Bear Markets

Offense: Growth

Defense: Protection

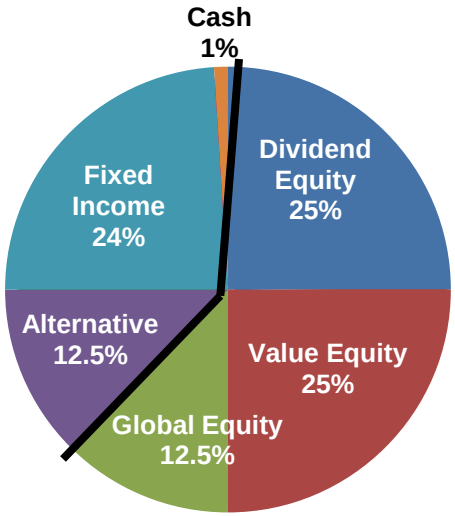
DELTA INVESTMENT MANAGEMENT

Delta Core



Active, Agile Management – Diversified Risk Mitigation – Methods and Assets

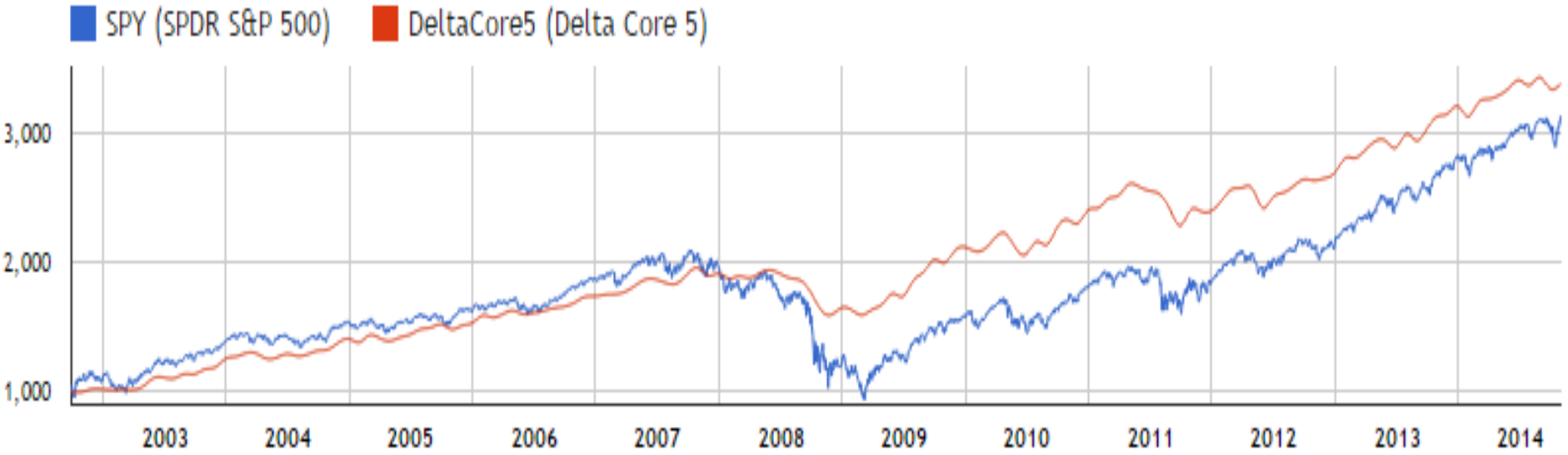
Delta Core Hypothetical Results



All Tactical -- Diversified

24% Balanced fund with bond bias
25% Value equity, cash, bond
25% High dividend with risk mitigation
12.5% Global stock sector rotation
12.5% Alternative global all asset rotation
1% Cash

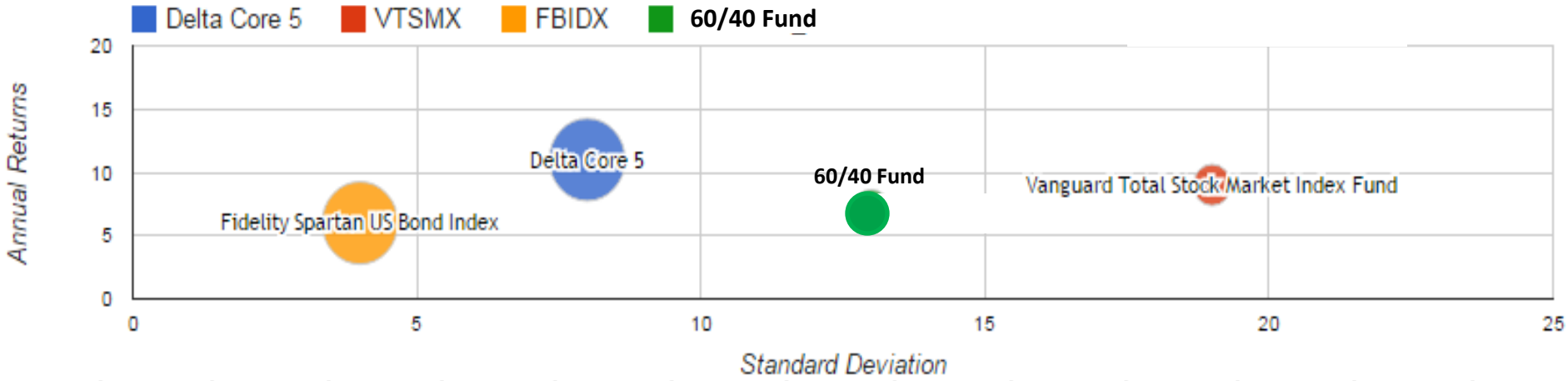
Comparative Growth of $1,000 Invested 9/30/2002 to 10/31/2014



Past performance does not guarantee future results. Please see important disclosures at end of presentation.

Delta Core Hypothetical Results

Risk Versus Returns Compared to Stock and Bond Market Indices



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2002									0%	-0.17%	2.25%	-0.17%	1.9%
2003	-0.46%	0.24%	-0.2%	2.53%	6.09%	0.54%	-0.63%	2.97%	-0.01%	3.33%	1.27%	5.49%	23%
2004	1.4%	2.03%	-0.15%	-3.08%	0.69%	2.13%	-1.2%	1.09%	2.13%	0.8%	3.96%	1.96%	12.2%
2005	-1.76%	3.73%	-1.37%	-1.62%	1.97%	1.59%	2.8%	0.92%	1.6%	-2.45%	1.8%	1.47%	8.8%
2006	3.68%	-0.84%	1.49%	1.74%	-1.64%	0.5%	1.12%	1.25%	0.75%	1.85%	2.56%	0.35%	13.5%
2007	0.69%	0.18%	1.19%	2.75%	2.52%	-0.16%	-1.5%	0.03%	3.82%	2.47%	-3.02%	0.82%	10%
2008	-1.97%	0.91%	-0.66%	1.84%	1.33%	-1.37%	-1.85%	-1.02%	-4.93%	-7.82%	-1.99%	3.35%	-13.8%
2009	-1.28%	-2.16%	2.64%	2.63%	4.69%	-1.16%	7.08%	3.61%	4.77%	-1.12%	4.54%	1.45%	28.3%
2010	-1.54%	0.99%	4.08%	1.36%	-5.25%	-1.92%	4.62%	-1.07%	6.2%	2.61%	-1.17%	4.42%	13.5%
2011	0.8%	2.8%	1.09%	3.36%	-0.67%	-1.19%	-1.12%	-4.72%	-5.01%	5.2%	-0.41%	0.15%	-0.2%
2012	3.38%	3.4%	0.52%	-0.2%	-5.83%	3.23%	1.55%	1.99%	1.97%	-0.29%	0.63%	1.63%	12.3%
2013	4.15%	0.05%	2.18%	2.4%	0.06%	-1.74%	3.58%	-1.63%	3.04%	3.17%	0.72%	1.8%	19.1%
2014	-2.47%	3.28%	1.01%	0.82%	1.75%	1.79%	-1.09%	1.75%	-2.48%	0.99%			5.3%

Past performance does not guarantee future results. Please see important disclosures at end of presentation.

Delta Core Hypothetical Results

Risk and Return Analysis from 09/30/2002 through 10/31/2014

Annual Statistics:

Core Since Inception	10.6%
S&P 500 TR	9.9%
60/40 Equity/Bond Blend	6.5%
Core Volatility	8%
S&P 500 TR	20%
60/40 Equity/Bond Blend	13%
Core 2008	-13.8%
S&P 500 TR	-37.0%
60/40 Equity/Bond Blend	-25.8%

Larger Sortino Ratio indicates lower probability of a large loss.

SR = (Exp. Return – Risk Free Return)/Downside Deviation

Rolling 12-Month:

# of Positive Periods	89%%
Avg. When Positive	13.8%
Avg. When Negative	-9.2%
Best 12 Months	34%
Worst 12 Months	-16.8%

Other Risk Measures:

Core Max Drawdown	-18.6%
S&P 500 Max Drawdown	-55.0%
60/40 Equity/Bond Blend	-41.6%
Core Sortino Ratio	2.4
S&P 500 Sortino Ratio	0.8
60/40 Equity/Bond Blend	0.8

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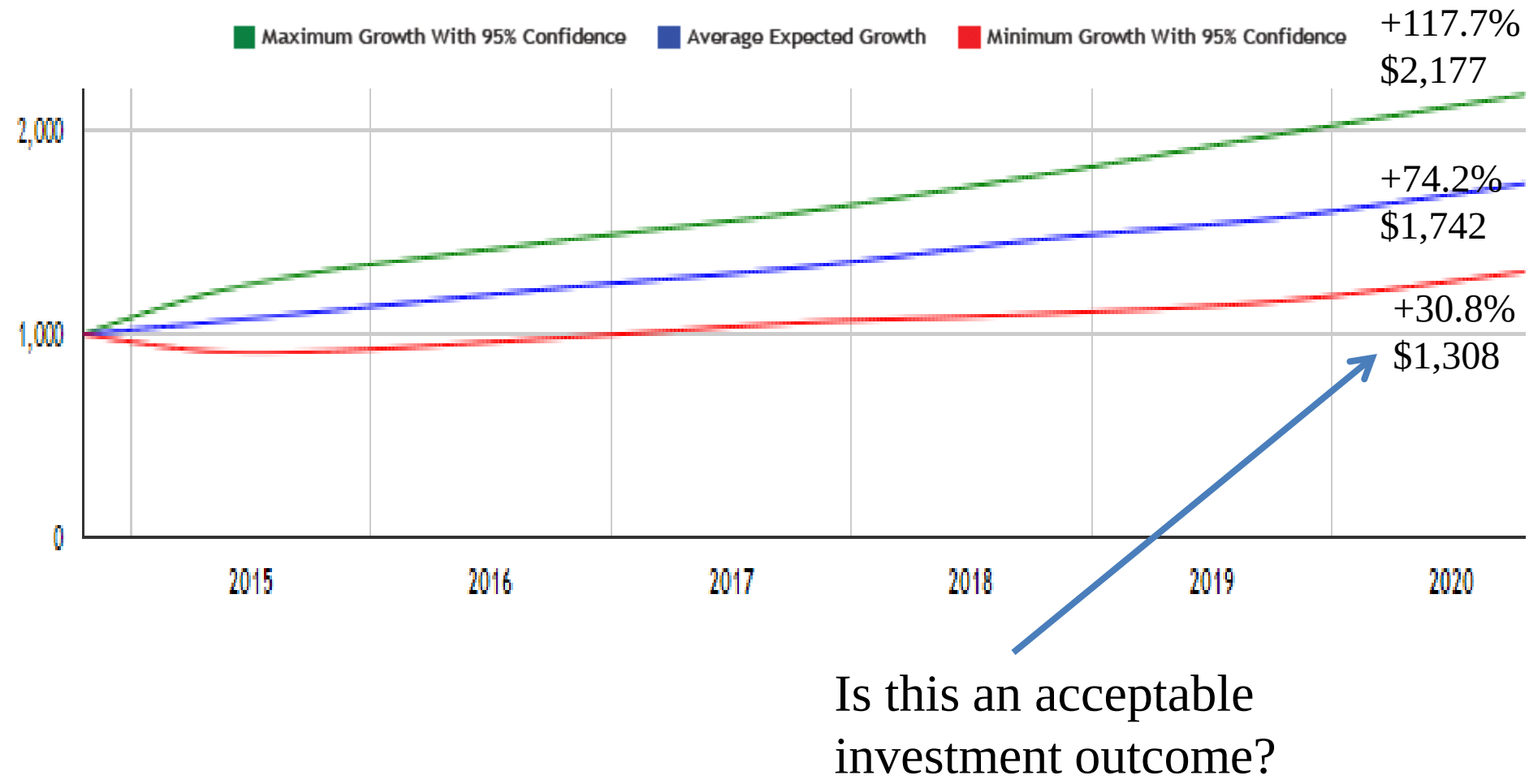
Expected Future Growth of $1,000 for the Next 5 Years
Diversified Tactical Portfolio

Based on historical performance. Past performance does not guarantee future results.



Is this an acceptable investment outcome?

Past performance does not guarantee future results. Please see important disclosures at end of presentation.

A Closer Look At Specific Tactical Strategies and Methods

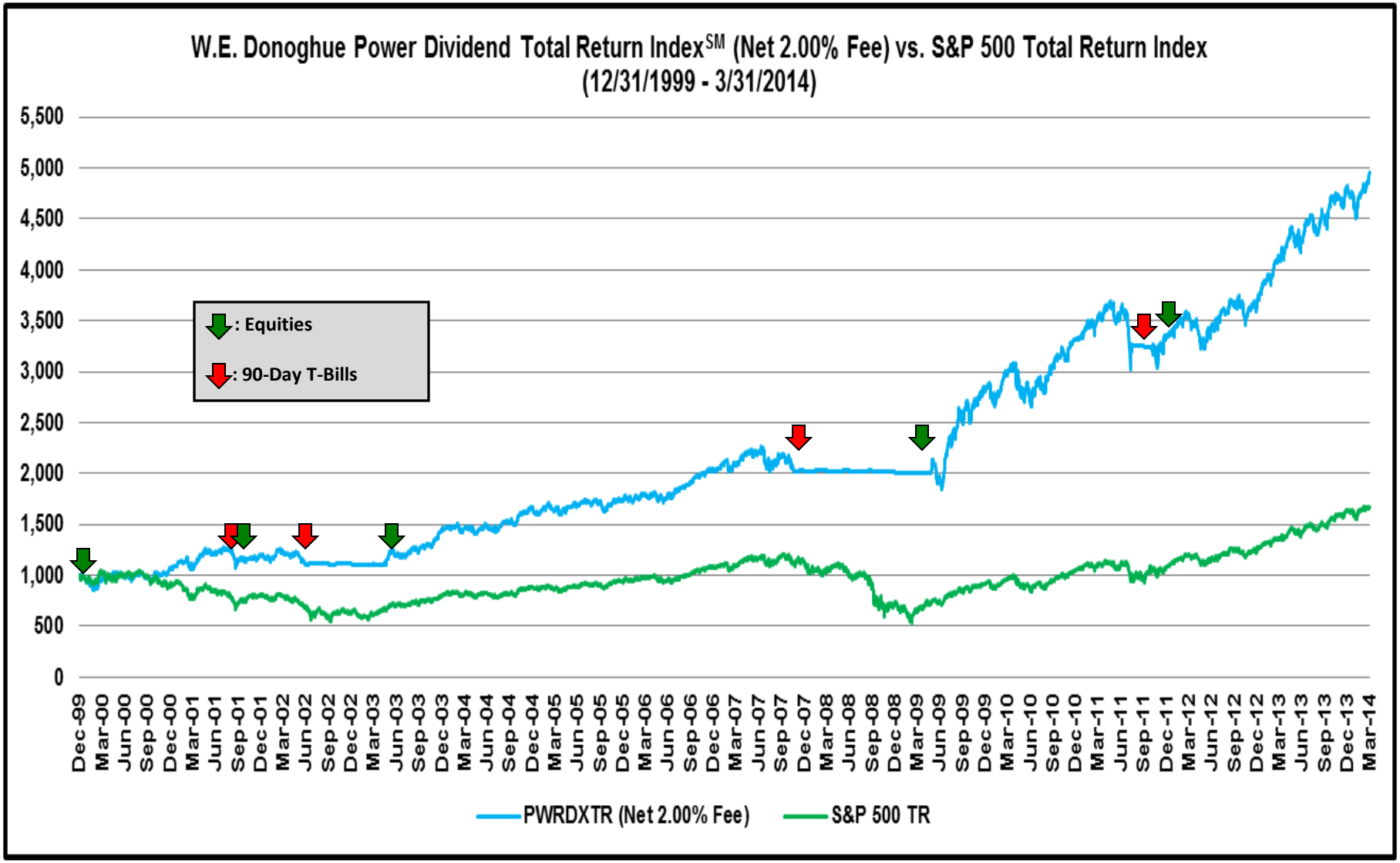
Tactical Investing

- **Adjusting investment exposure based on market risks**
  Tactical investing is active management, not buy-and-hold

- **Avoid bearish markets and participate in bullish markets**
  Delta's allocation changes are based on non-emotional, systematic model driven investment methodologies.

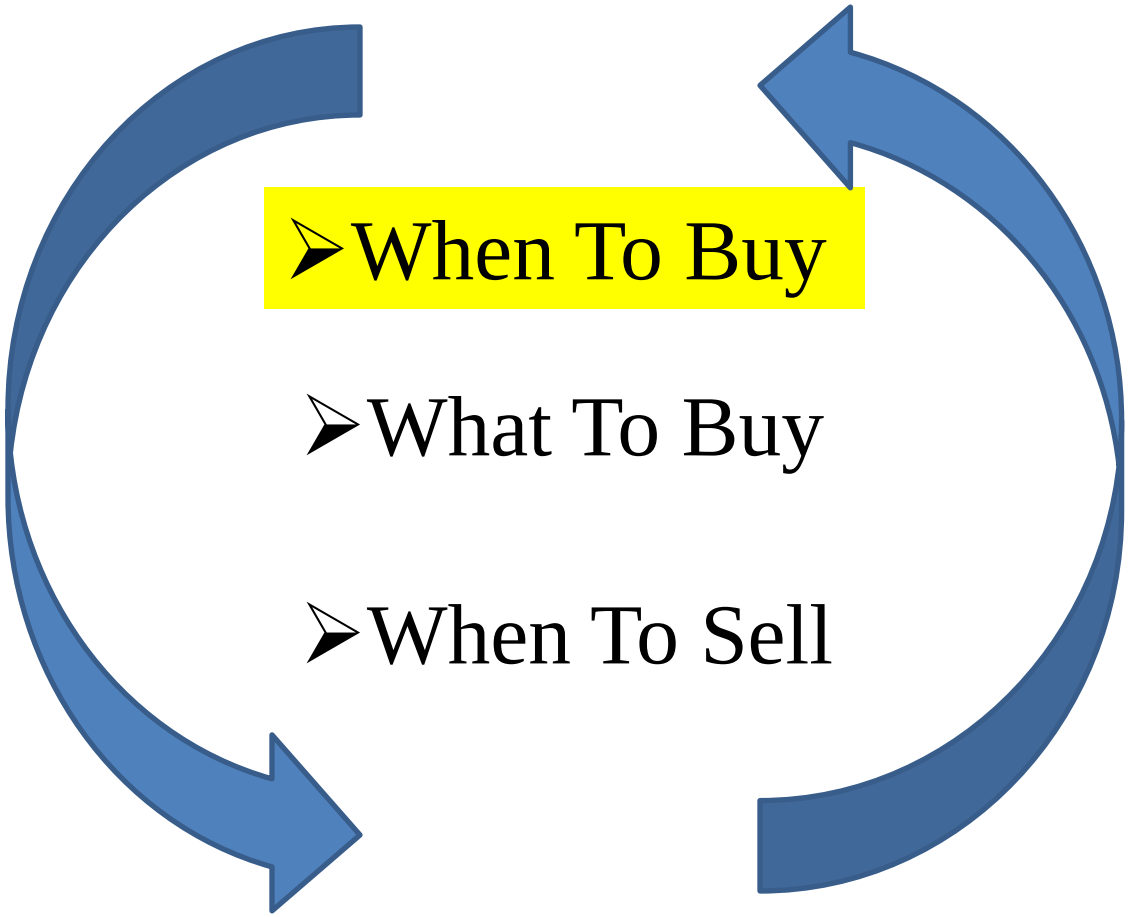
- **Tactical investing is like having insurance**
  Insurance policies are not perfect but they go a long way towards mitigating loss.

Delta Tactical Dividend



DELTA INVESTMENT MANAGEMENT

The Tactical Investment Process



DELTA
INVESTMENT
MANAGEMENT

When To Buy

Earnings Is Not the Only Factor Driving Stock Prices Over Time
In Fact, It May Not Be Even the Most Important Driver of Price

S&P 500 Earnings $56

The S&P 500

2000 - 2013

S&P 500 Earnings $112

DELTA INVESTMENT MANAGEMENT

When To Buy

Its All About Risk Perceptions Not Earnings

Prices driven by cash flows and discount rates

$$PRICE = \sum_t \left(\frac{CashFlows_t}{1 + DiscountRate_t} \right)$$

Discount rate reflects risk premium

$$DiscountRate = R_f + \text{Risk Premium}$$

Risk Premium - more to the story

Classical View:
- Markets are efficient
- Risk premium is **constant** (a.k.a. Random Walk hypothesis)
- Focus on cash flow analysis

Delta View:
- Markets are efficient
- Investors' risk premiums are **time-varying**, even when cash flow expectations are stable.
- Focus on risk-premium

The Important Driver of Stocks in the Intermediate-Term Is:

Changes in Investors' Equity Risk Premiums Rather than Changes in Expected Cash Flows

Fear and Greed

DELTA INVESTMENT MANAGEMENT

Moving Average Crossover (MAC) Model

"Moving Average: Holy Grail or Fairy Tale"

June 2009 study published in Advisor Perspectives

Theodore Wong – BSEE and MSEE degrees from MIT

The moving average crossover (MAC) is the simplest and probably the oldest trading system.

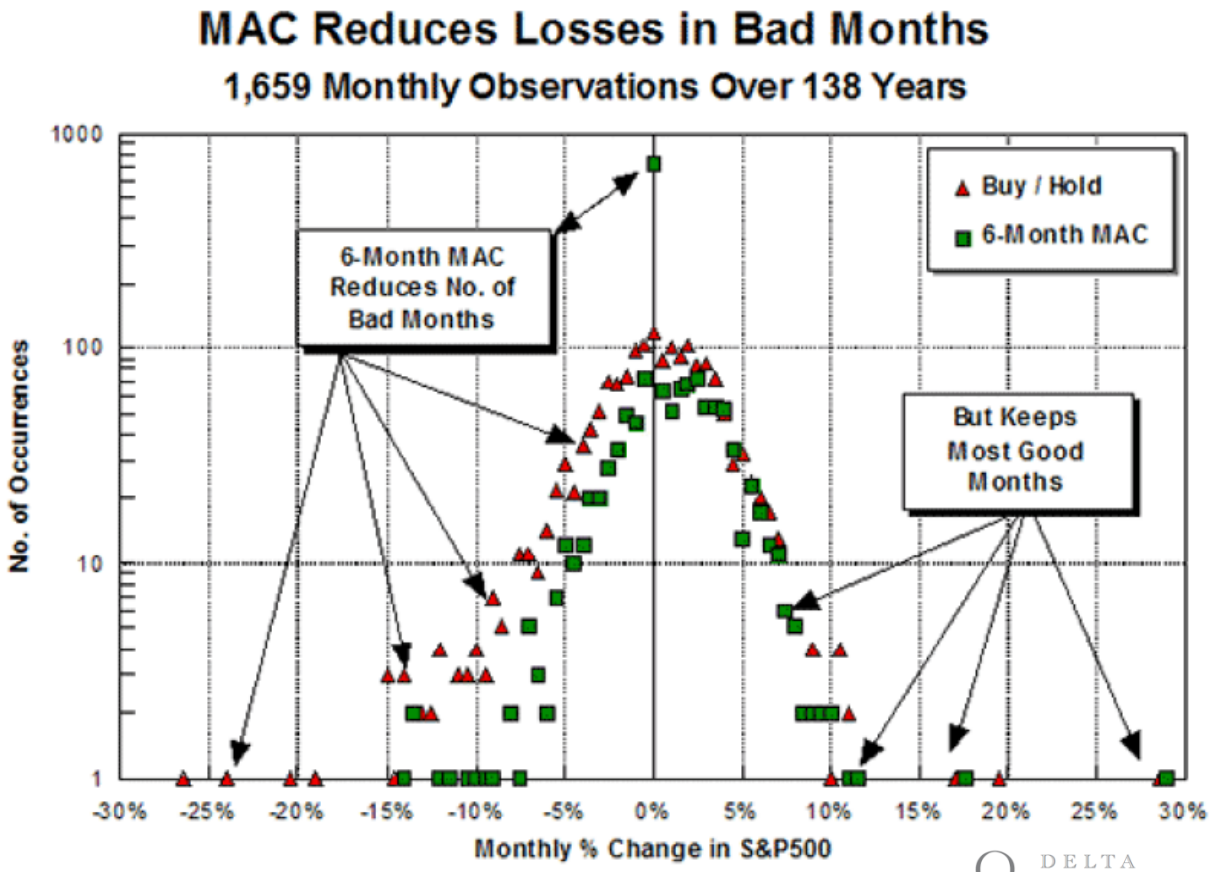
You buy when the price rises above its moving average, and you sell when it drops below.

Moving Average Crossover (MAC) Model

	CAGR	Terminal Equity Value	Risk-Adjusted Return	Average Drawdown	Maximum Drawdown
Buy-and-Hold	8.6%	$84,660	23.8%	-25.9%	-84.8%
6-Month MAC (Best of Class)	9.6%	$319,000	37.4%	-2.0%	-13.8%

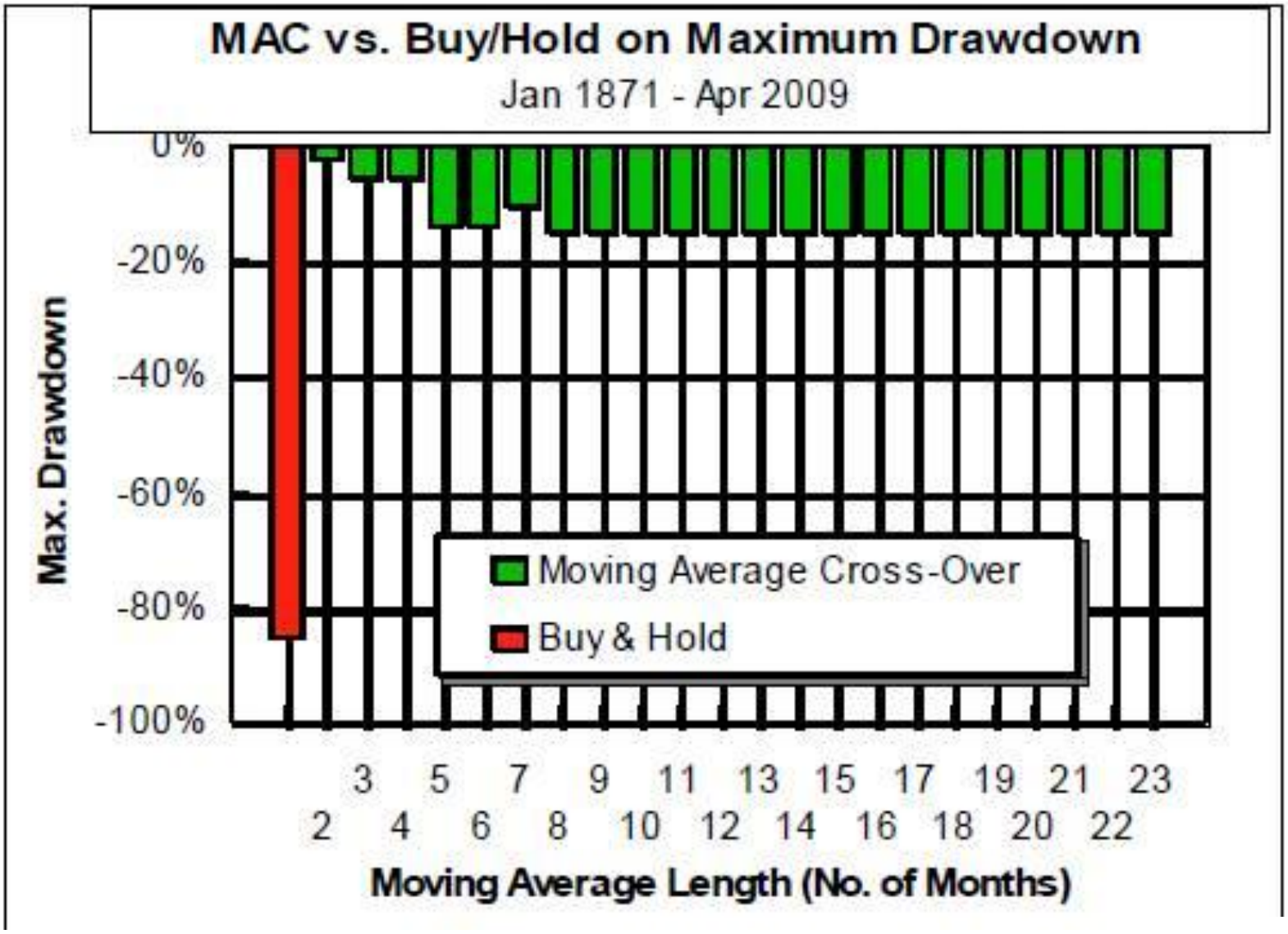
"Based on aggregate performance over the entire 138-year period, the MAC system beats buy-and-hold in both absolute performance and risk-adjusted return."

Theodore Wong – BSEE and MSEE degrees from MIT



DELTA INVESTMENT MANAGEMENT

Best Measure of Downside Risk: Equity Drawdown



Study by Theodore Wong and Advisor Perspectives

When To Buy

75-Day MAC Buy/Sell Signals

vs.

S&P 500 (SPX)

2008-2010

DELTA INVESTMENT MANAGEMENT

When To Buy

75-Day MAC Buy/Sell Signals

vs.

S&P 500 (SPX)

September 2010-September 2012

DELTA INVESTMENT MANAGEMENT

BARRON'S

Market Laboratory • Indicators

DELTA TACTICAL MARKET SENTIMENT

The Delta MSI measures the position of ~3,000 stocks relative to an intermediate-term moving average crossover (MAC) point. When greater than 50% of the stocks followed are above this MAC point, the market is bullish and equities are attractive. When the indicator is below 50%, risk is elevated and stock exposures should be reduced. Manager uses discretion on asset allocation when MSI is 50% +/-3%.

Current Sentiment	Last Week	2 Weeks Ago	3 Weeks Ago
BULLISH	74.1%	80.9%	82.3%

Current Market Exposure: 72% Equities, 28% Cash
Source: Delta Investment Management
www.deltainn.com, (415) 249-6337

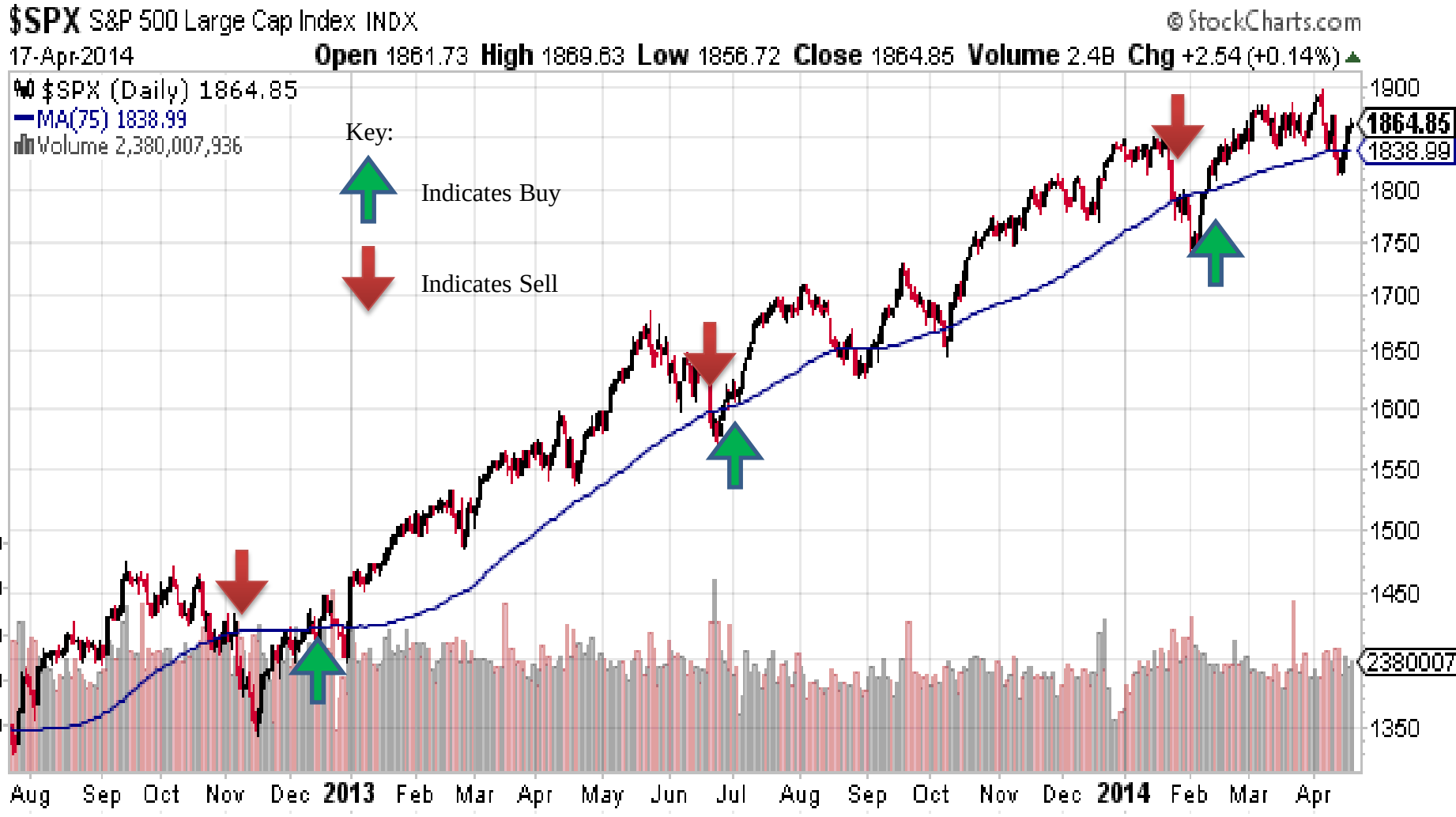
When To Buy

75-Day MAC Buy/Sell Signals

vs.

S&P 500 (SPX)

September 2012-April 2014



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Market Laboratory • Indicators

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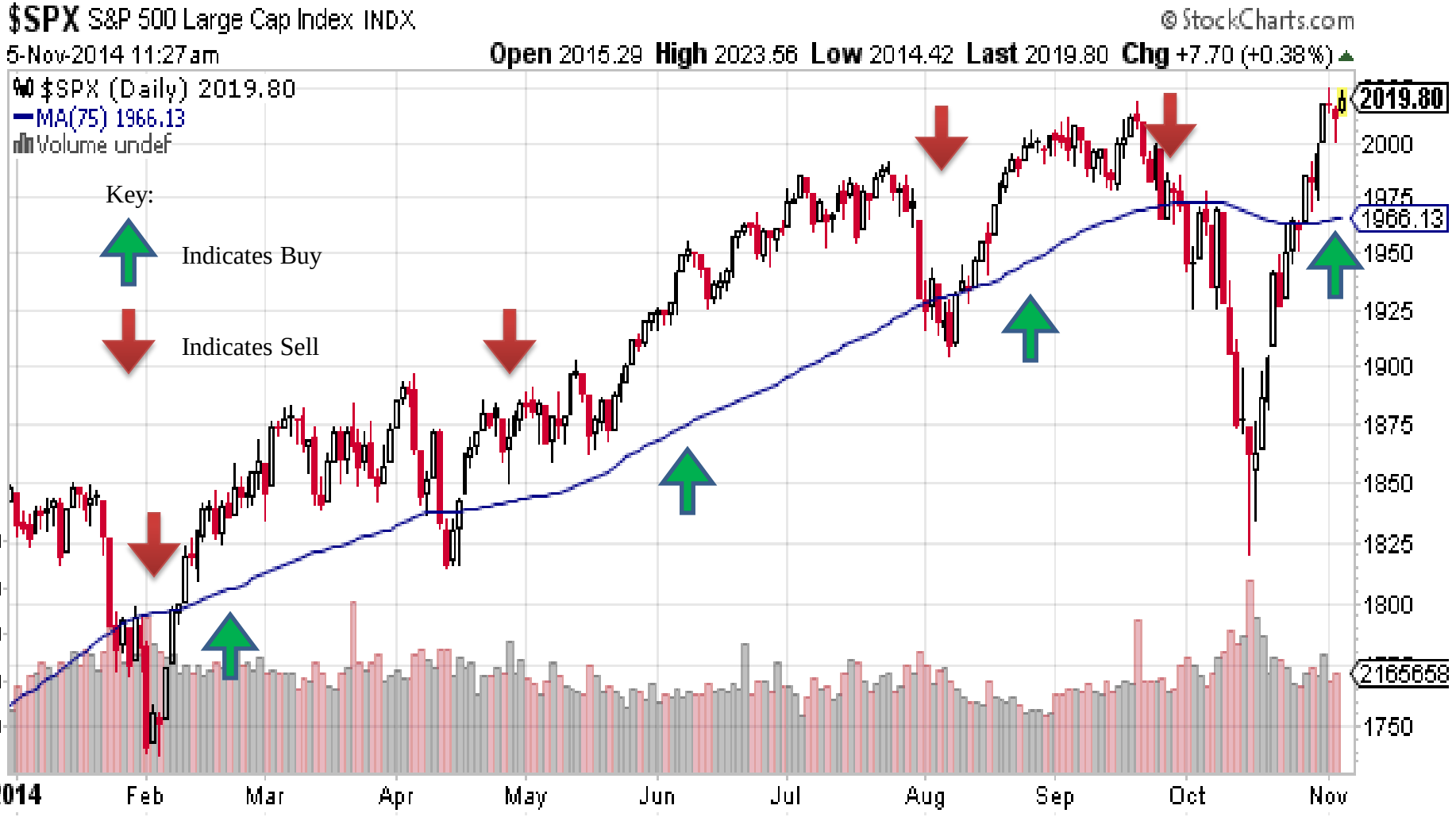
When To Buy

75-Day MAC Buy/Sell Signals

vs.

S&P 500 (SPX)

2014 Year-to-date



When To Buy

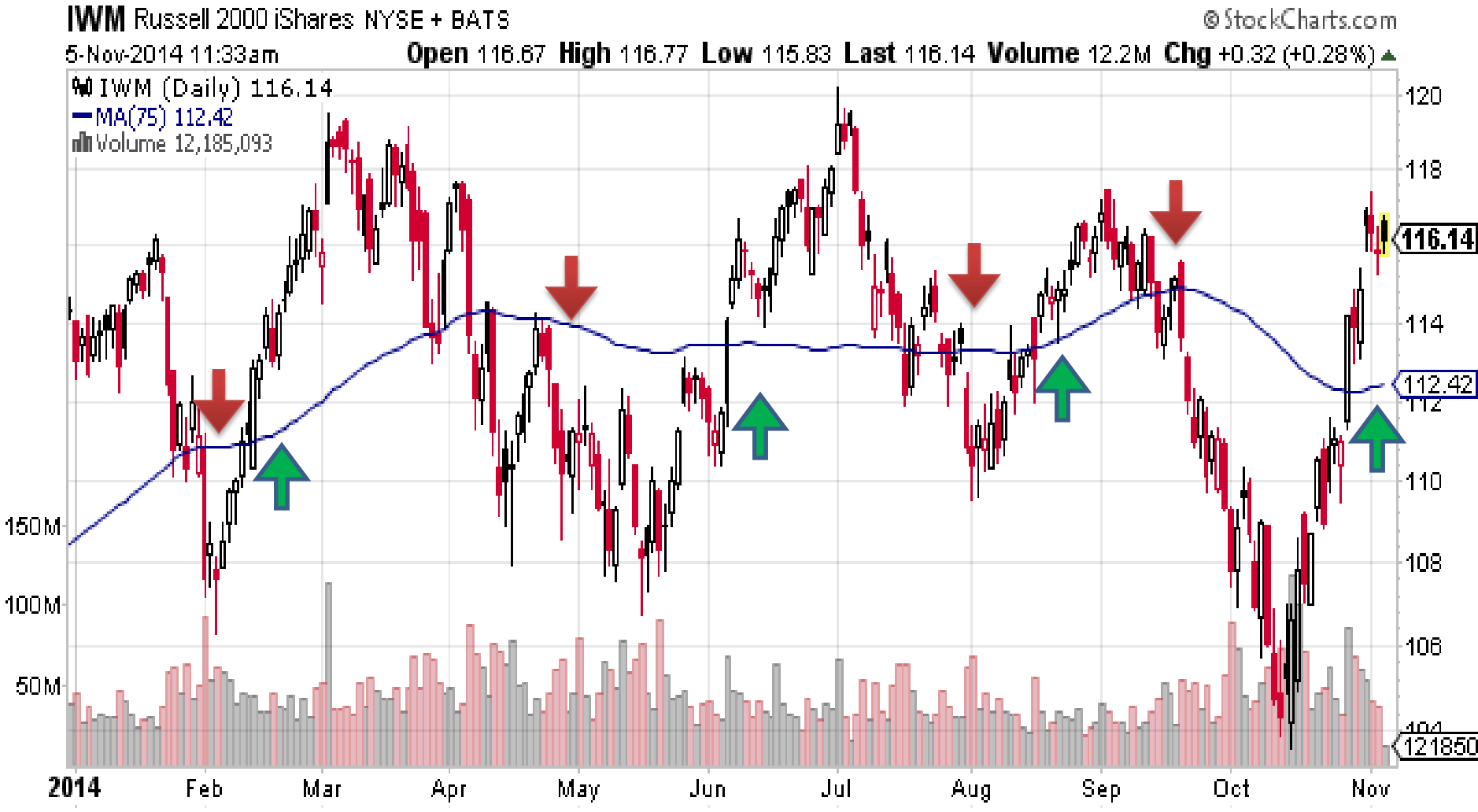
75-Day MAC Buy/Sell Signals
vs.
Russell 2000 (IWM)

2014 Year-to-date

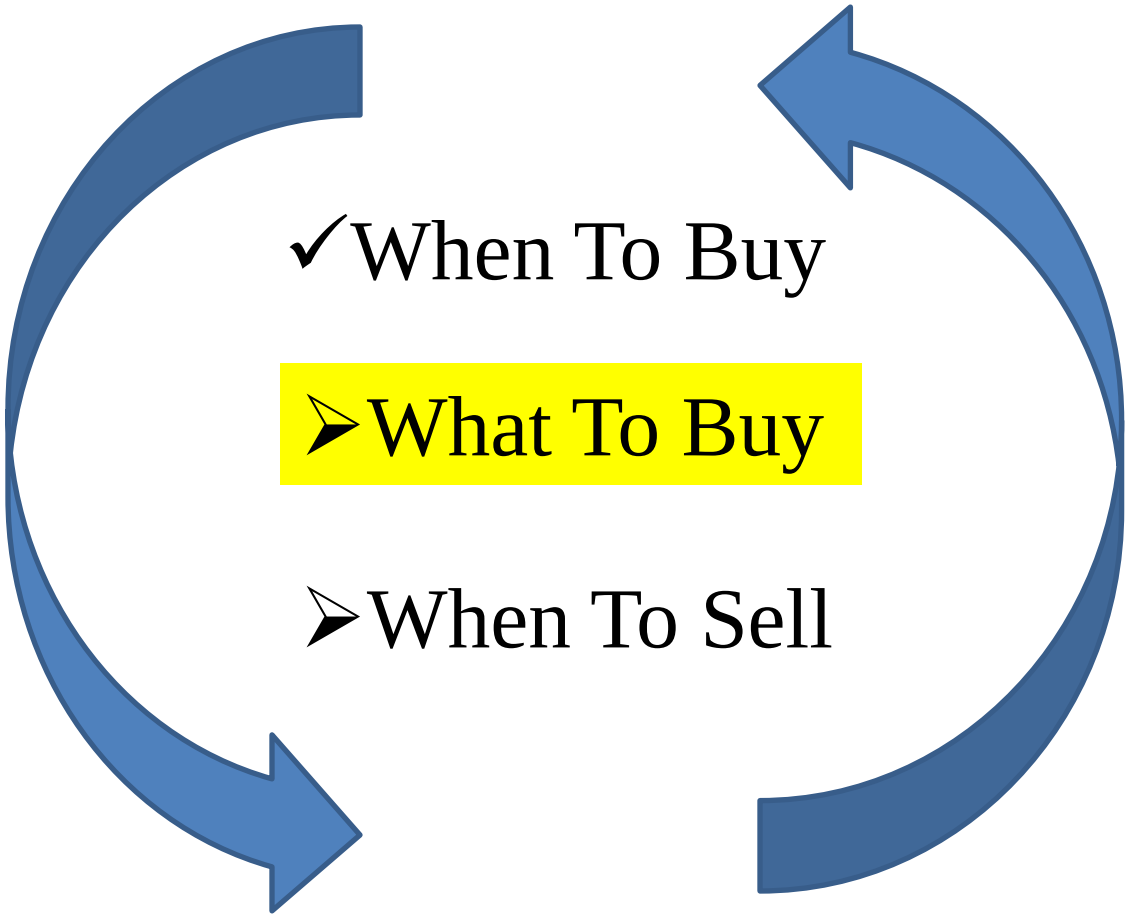
Key:

Indicates Buy

Indicates Sell

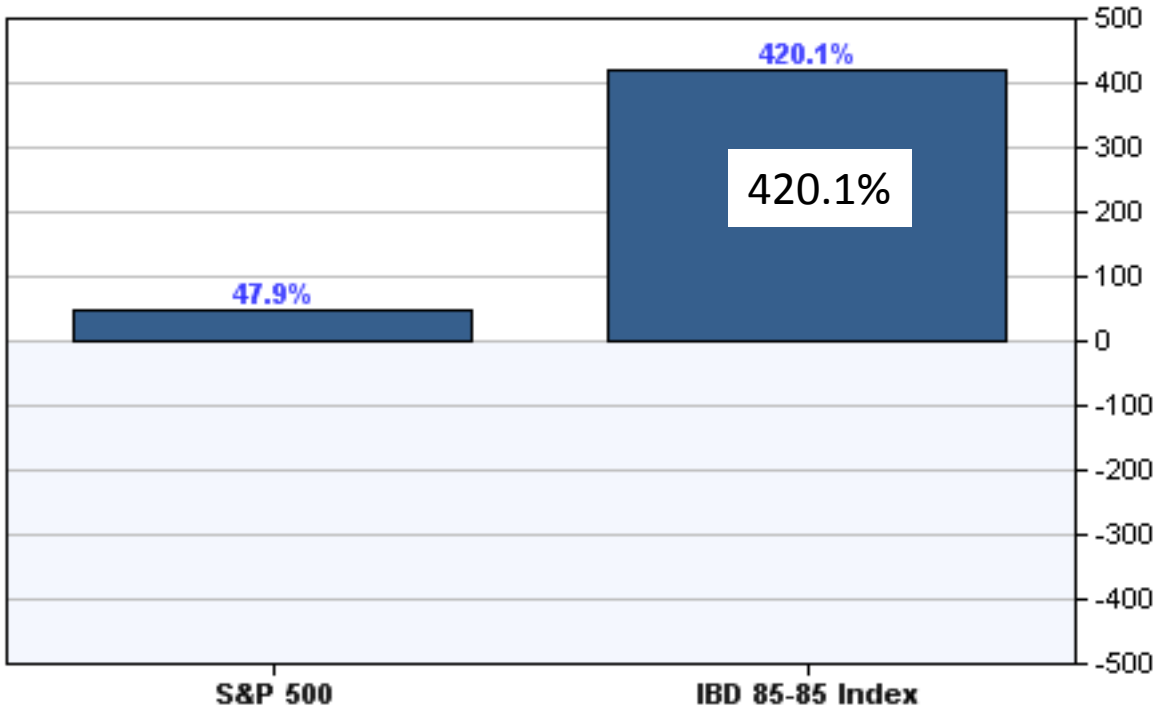


The Tactical Investment Process



High Relative Strength Stocks

IBD 85-85 Index vs. the S&P 500
11/13/2000 – 9/24/2014



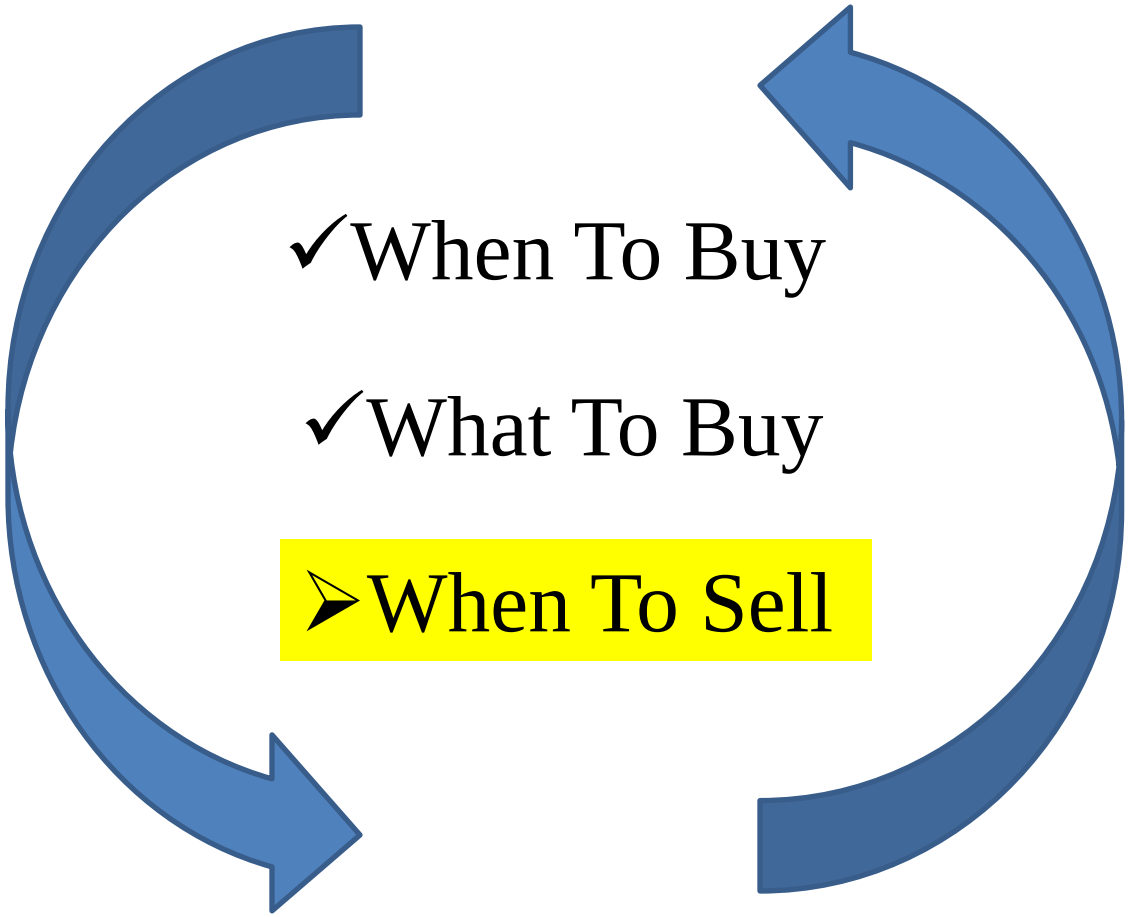
"Our research shows that in every market over the last 50 years, the best Stocks have had EPS and Relative Strength ratings of 85 or better BEFORE they made their biggest gains.

The consistently superior performance of the IBD 85-85 Index reinforces this fact."

Investors.com – Investor's Business Daily (IBD)

What We Do

The Investment Process



DELTA
INVESTMENT
MANAGEMENT

When To Sell

BARRON'S

The Dow Jones Business and Financial Weekly

Market Laboratory • Indicators

DELTA TACTICAL MARKET SENTIMENT

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www.deltaim.com, (415) 249-6337

Same Simple Way to Measure Risk Premium

DELTA INVESTMENT MANAGEMENT

When To Sell

When Not in Equities?

- Cash
- U.S. Treasury Bonds, 1 to 10 year duration
- U.S. Treasury Bonds, 30 year duration

Delta MSI
Opportunistic Signals

- When the Delta MSI drops below 10, it has marked an important low: 1990, 1998, 2002, 2008/2009, and 2011.

- When the Delta MSI is near 50, you have a tight stop-loss. Good time to put new money to work.

Delta Wealth Management
Separately Managed Account (SMA)

- Your account is held at TD Ameritrade or Charles Schwab on the Institutional Platform

- Delta Manages Your Account For You

- Transparency
  - Monthly account statements from the custodian
  - 24/7 account internet access
  - Weekly and quarterly reports from Delta

- Integrity/Security
  - The Custodian is separate from the Money Manager
  - Your money is not co-mingled with other client money
  - Fund withdrawals must be approved by you

Delta Wealth Management
Tactical Specialists

Premier Tactical Strategies used to create wealth management solutions that fit your individual financial situation and objectives:

- Domestic and International
- Rotational and risk-on/risk-off
- Stocks, ETFs and Mutual Funds
- Highly active strategies for IRA accounts
- Tax efficient programs for Standard accounts
- Fees range from 0.5% to 1.8% based on strategies used

DELTA
INVESTMENT
MANAGEMENT

Delta Core Hypothetical Results Performance Disclosures

The performance history is compiled by looking back in time and applying a pre-specified strategy trading discipline to derive strategy performance. Back tested performance was derived from the retroactive application of a model with the benefit of hindsight. Performance results include a 0.9% annual management fee. Actual fees may vary based on, among other factors, account size and custodial relationship. The performance results shown include the reinvestment of dividends and other earnings. Delta does not make any representation that the Delta Core strategy will or is likely to achieve returns similar to those shown in the performance results presentation. Delta reserves the right to trade different securities within their models.

Modeled results may differ materially from actual results as they do not represent actual trading and may not fully account for commissions and other expenses a client would have paid. Modeled results may not reflect the impact that material economic and market factors might have had on the advisers decision making if the adviser were actually managing the client's money. The stock and bond markets underwent unusually high volatility from 2008 through 2012 which helped deliver strong model results. Market volatility may subside in future periods potentially causing strategy future results to be less than what is shown. Securities used to create the modeled portfolio may not relate or only partially relate to the securities used by the advisor in implementing the strategy going forward.

Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. Historical performance results for market indices and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark. Returns may differ slightly from client returns due to a number of factors. Factors include client being invested in a different fund family or instrument or having account domiciled at a custodian with different fee schedules.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. ALL INVESTMENT STRATEGIES OFFERED INVOLVE RISK THAT COULD RESULT IN A LOSS OF PRINCIPAL, WHICH THE CLIENT WILL BEAR.

Delta Investment Management
Contact Information:

Nick Atkeson (415) 249-6337

Andrew Houghton (415) 249-6335

www.deltaim.com

info@deltaim.com

XXX

End

Delta Core Hypothetical Results Performance Disclosures

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The modeled results are based on the performance histories of the W.E. Donoghue Power Dividend Total Return Index (PWRDXTR), the PIMCO All Asset Fund (PAAIX), the Ivy Asset Strategy Fund (WASAX), the FPA Crescent Fund (FPACX) and the Newfound Risk Managed Global Sector hypothetical index returns.

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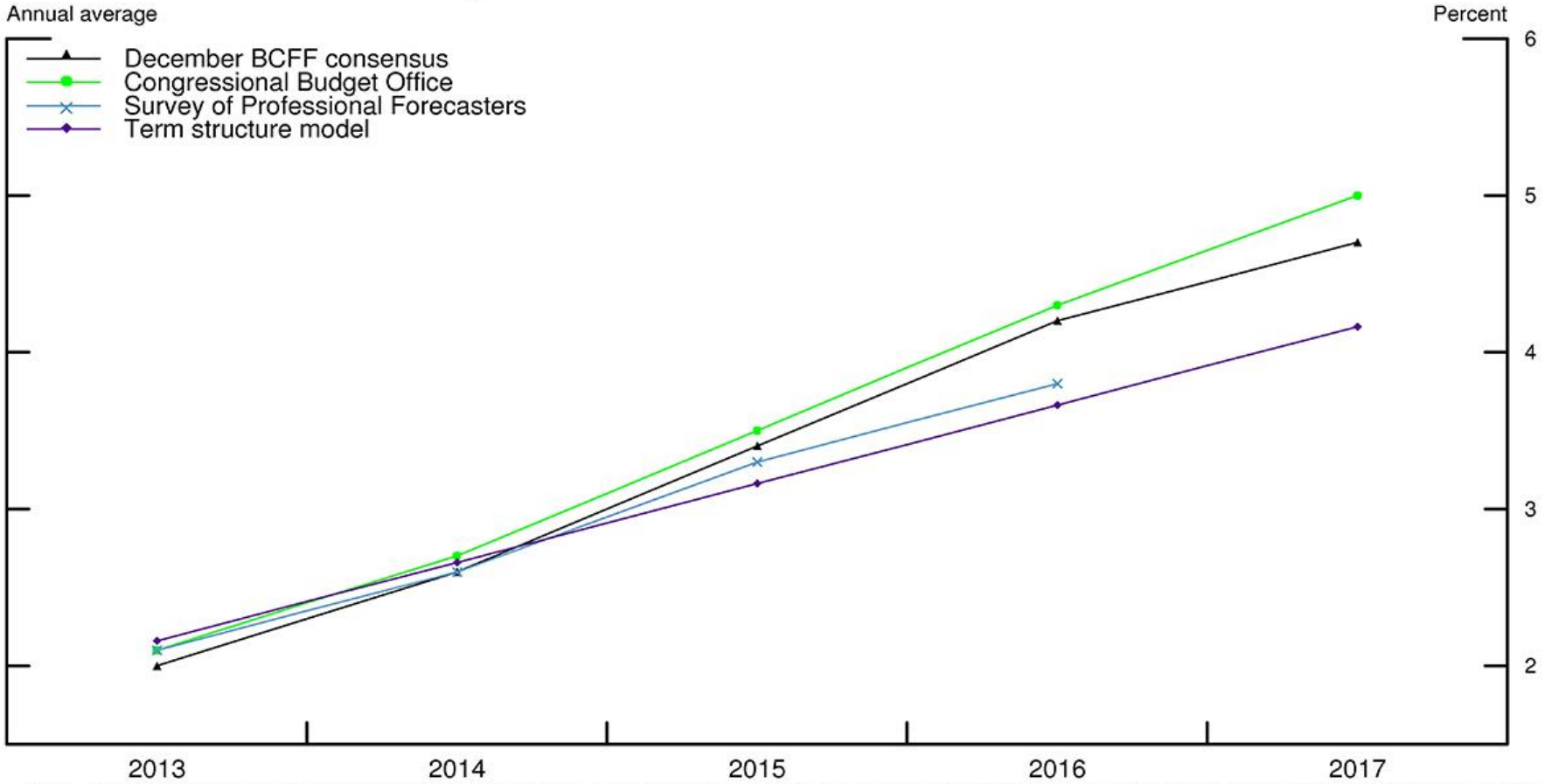
Interest Rates

Bernanke Speech – March 1, 2013

Chart 4. Alternative 10-Year Treasury Yield Forecasts



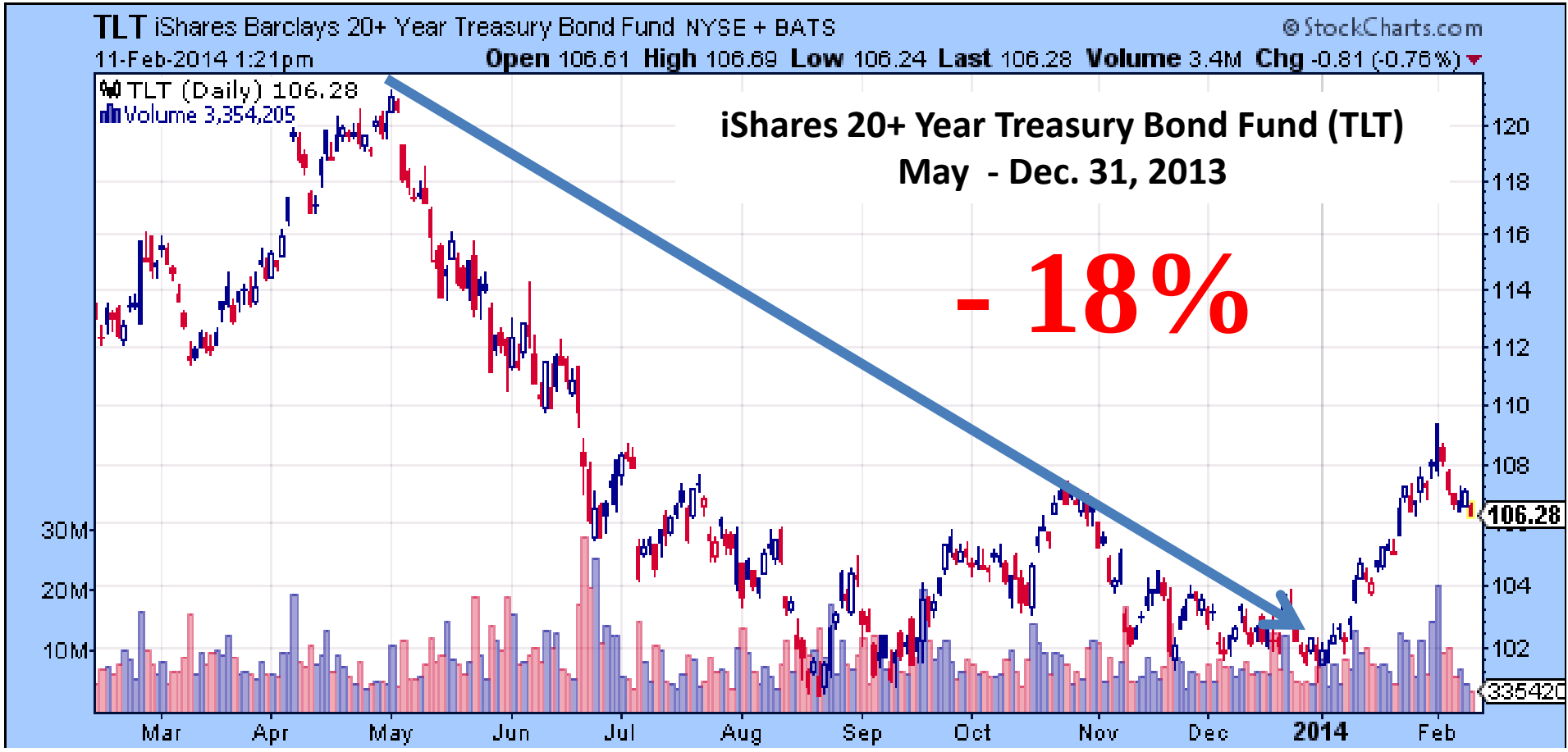
Note: The term structure model forecast assumes that the expected real rate and term premium components of the 10-year nominal yield as shown in chart 2 revert to their respective pre-crisis means over a 5-year period while the expected inflation component remains constant at the level at the end of 2012.

Source: For December BCFF consensus, Blue Chip Financial Forecasts (BCFF) survey, December 2012; for Congressional Budget Office, Congressional Budget Office (2013), *The Budget and Economic Outlook: Fiscal Years 2013 to 2023* (Washington: CBO), February 5; for Survey of Professional Forecasters, Survey of Professional Forecasters for 2013:Q1.

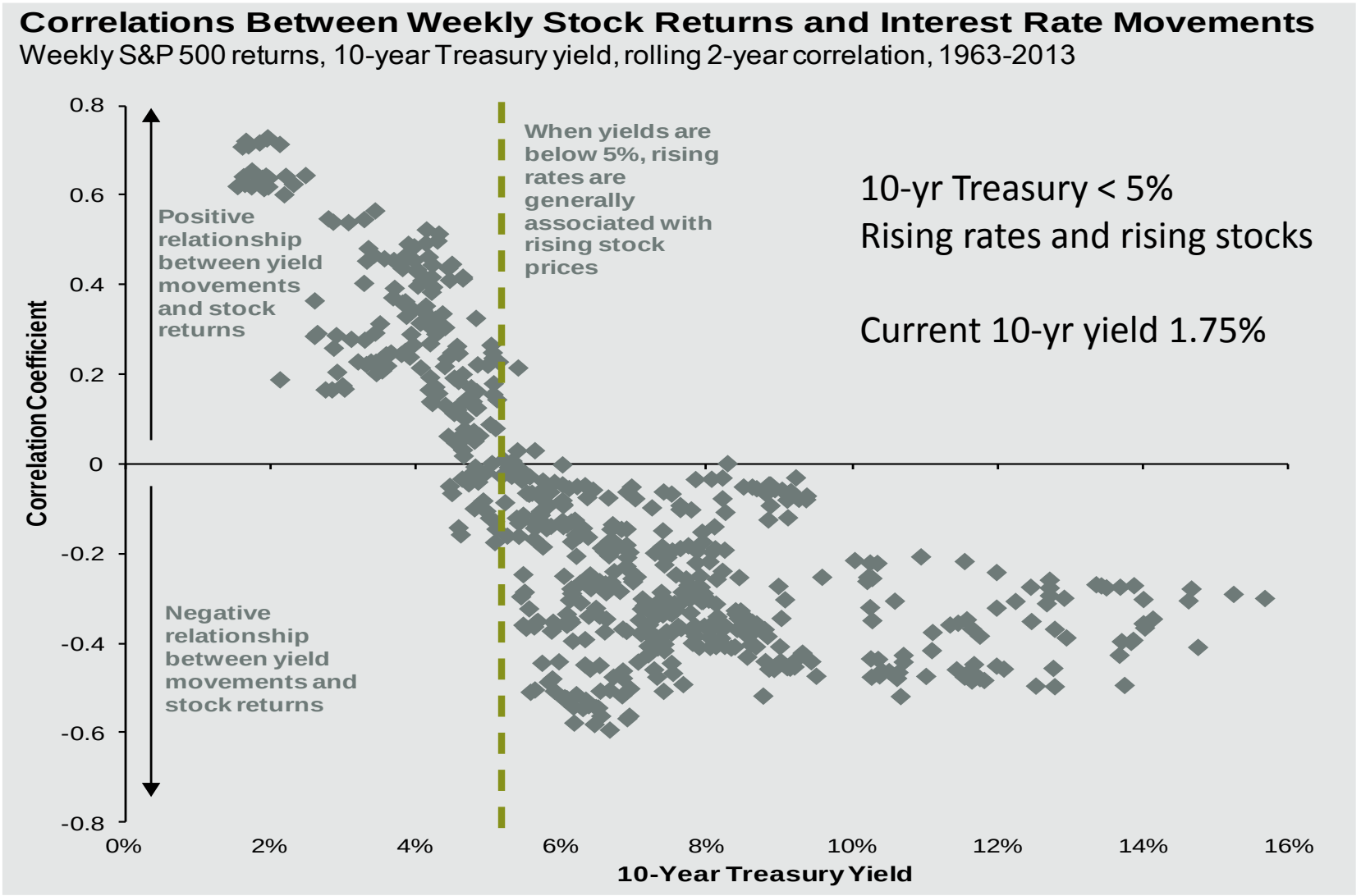
DELTA INVESTMENT MANAGEMENT

Warren Buffett – May 6, 2013, USA Today

- Doesn't like owning bonds right now, and he doesn't think average investors should either.
- "Bonds are a terrible investment at the moment" and "owners of long-term bonds may see big losses."



What Happens When Interest Rates Rise?

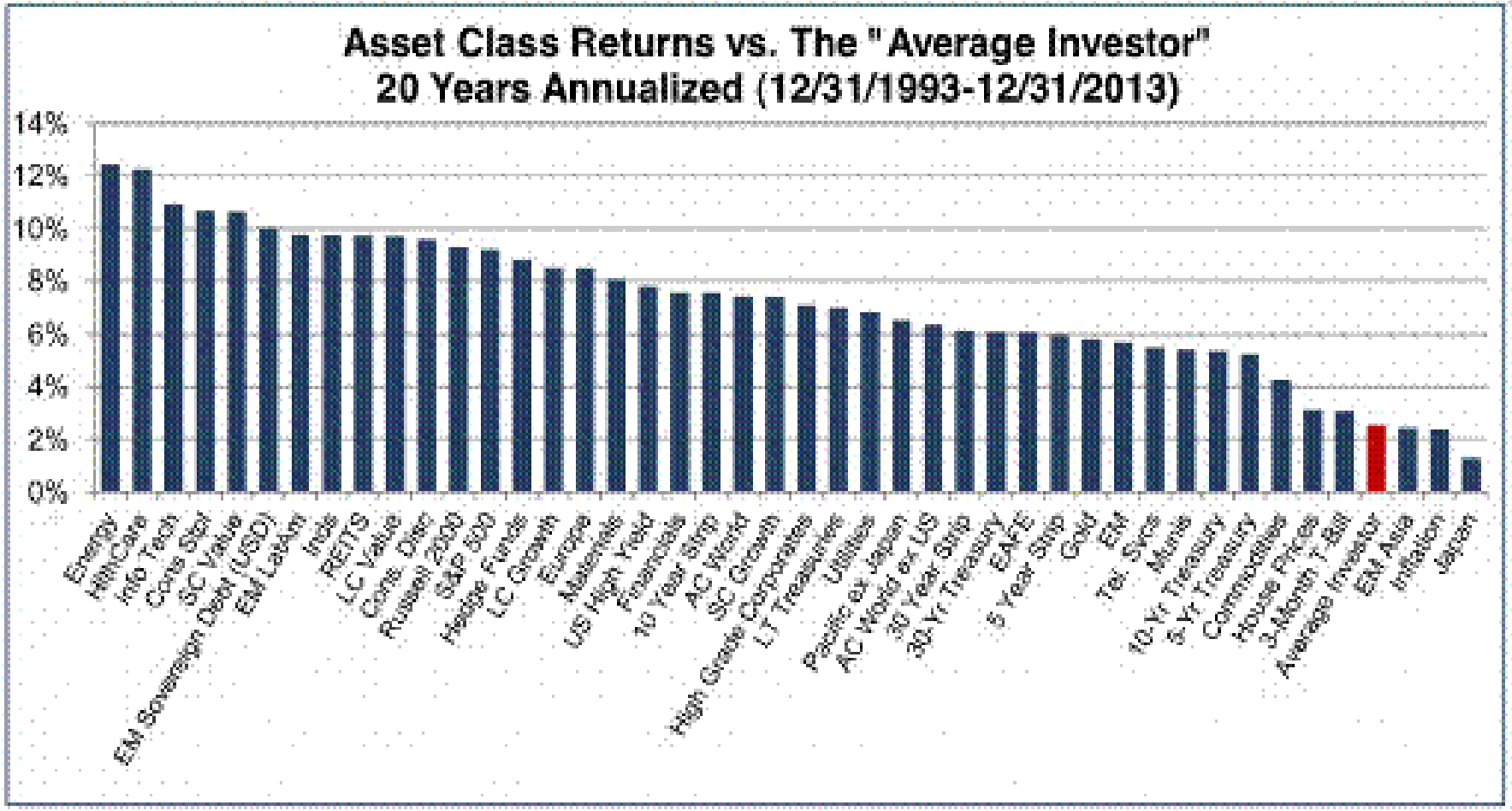


Source: Standard & Poor's, US Treasury, FactSet, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Grey bars in the right chart represent the historic range in correlations for each sector.

Data are as of 6/30/13.

DELTA INVESTMENT MANAGEMENT

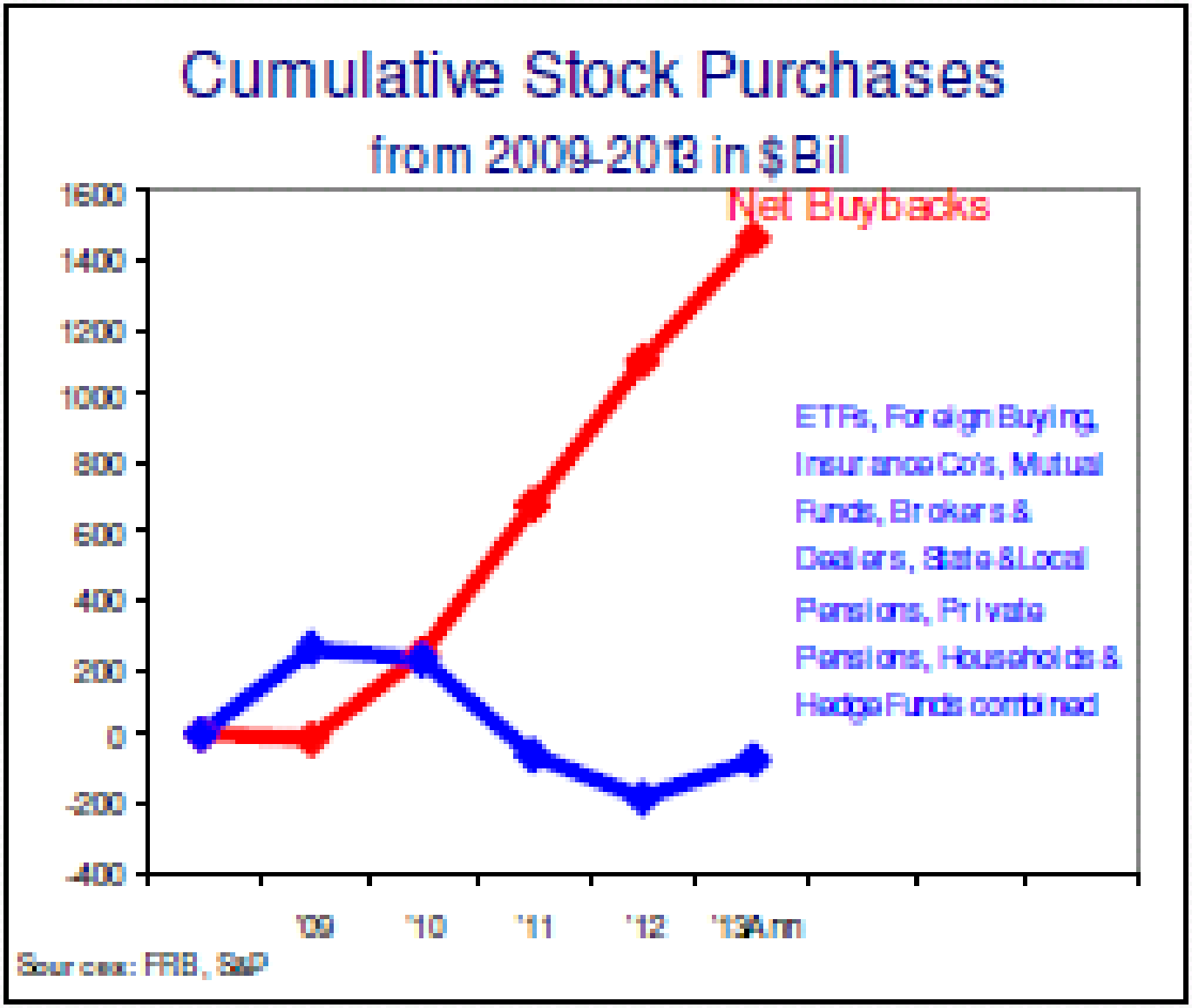


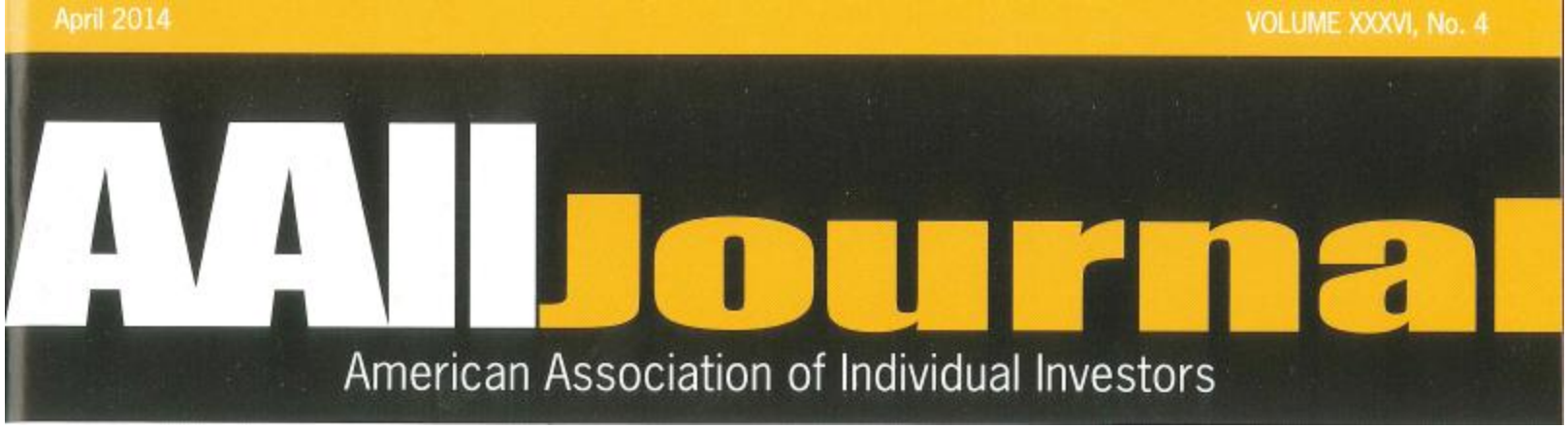
Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, BofA Merrill Lynch, Dalbar, FHFA, FRB, FTSE. Total Returns in USD.

Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

For Index descriptors, see "Index Descriptions" at end of document.

Stock Buybacks





The Case for Systematic Decision-Making

by Wesley R. Gray, Ph.D.

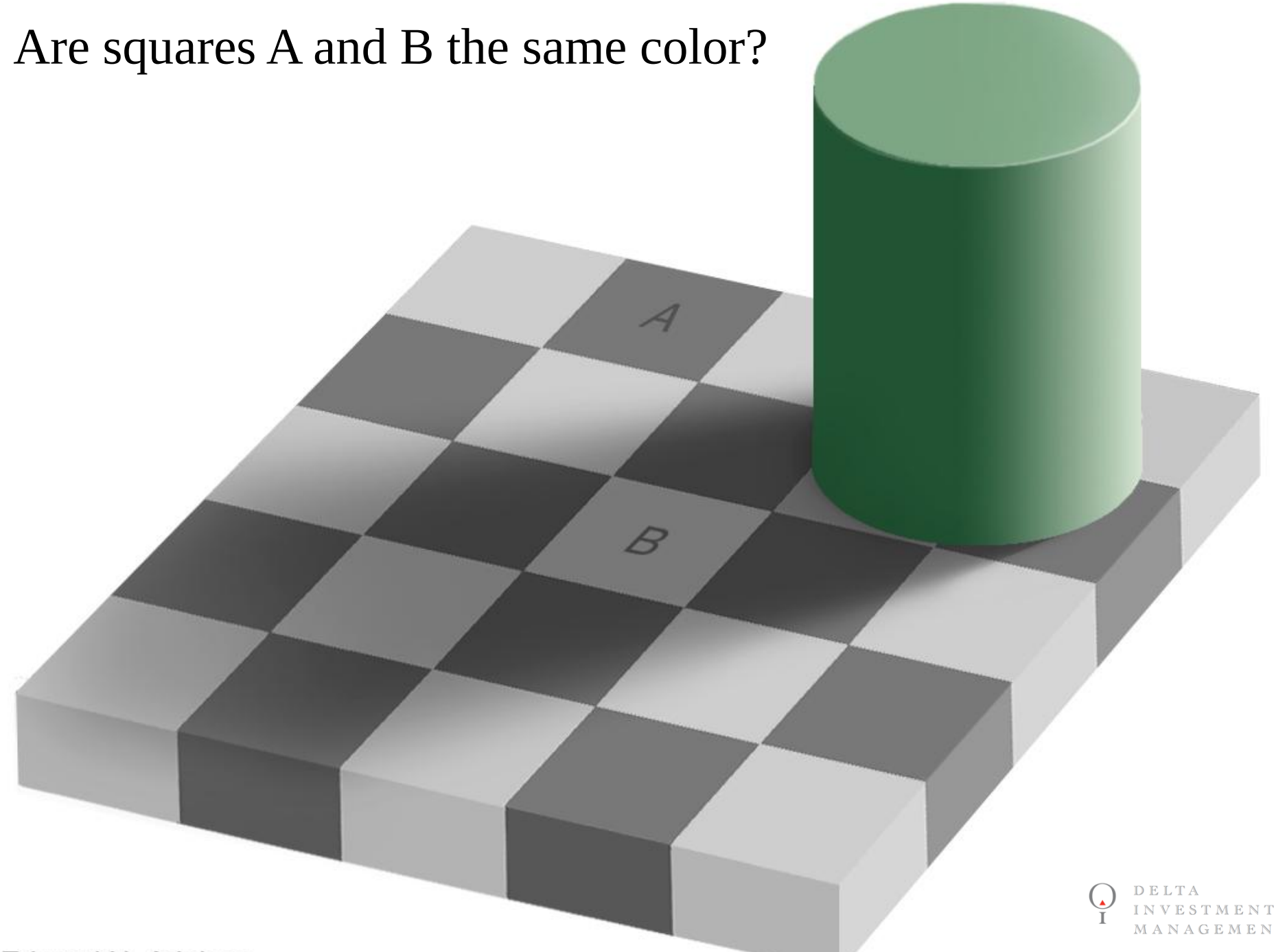
- Human Expertise is required to design models, but computers should be in charge of implementing models
- Humans perform worse than models because of behavioral biases, including overconfidence and the desire for explanations

Jim Simons, founder of Renaissance Technologies (1998):

"If you do fundamental trading one morning you feel like a genius, the next day you fell like an idiot…by 1998 I decided we would go 100% models…we slavishly follow the model… no matter how smart or dumb you think it is."

DELTA INVESTMENT MANAGEMENT

Are squares A and B the same color?



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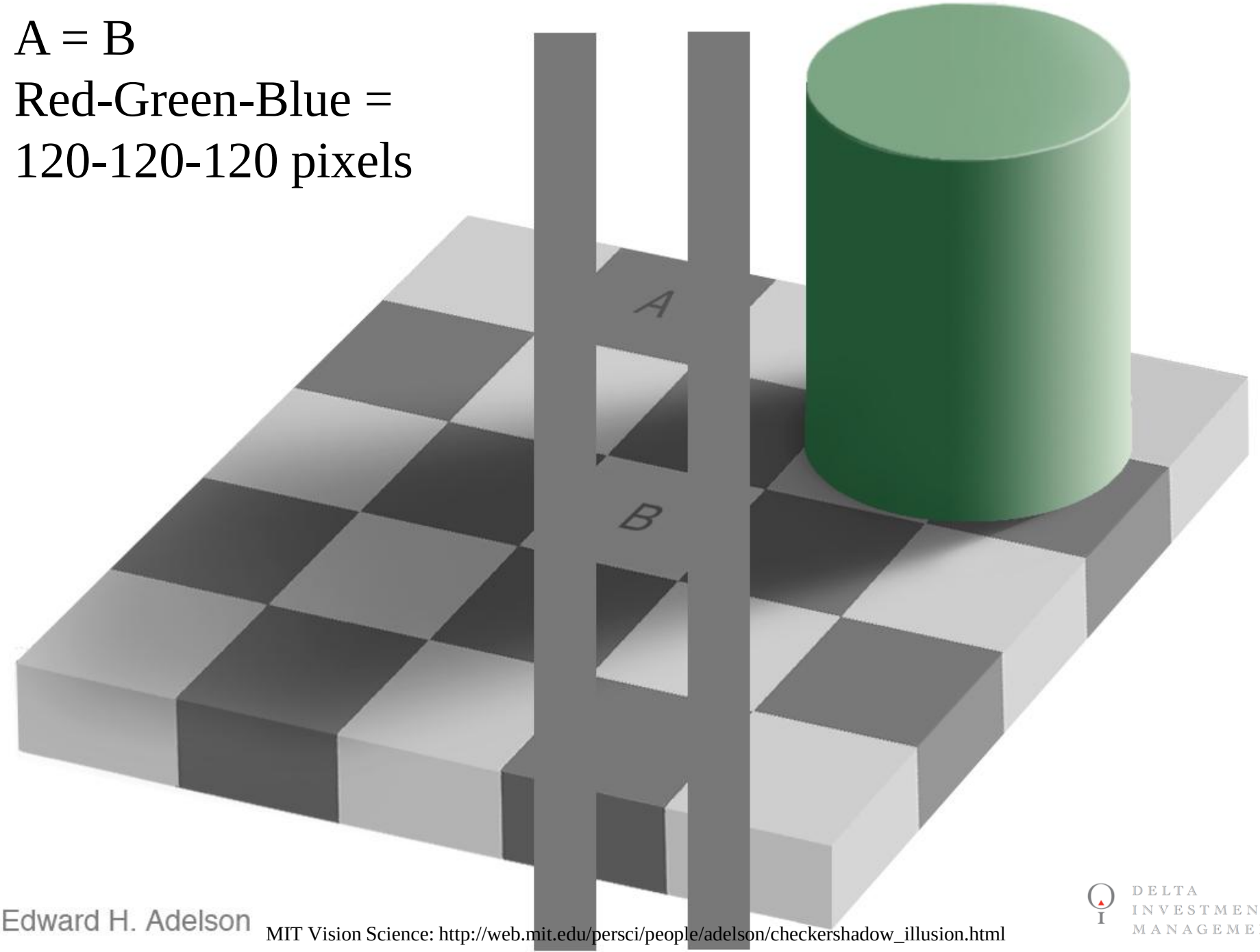
A = B

Red-Green-Blue =

120-120-120 pixels



Edward H. Adelson

MIT Vision Science: http://web.mit.edu/persci/people/adelson/checkershadow_illusion.html

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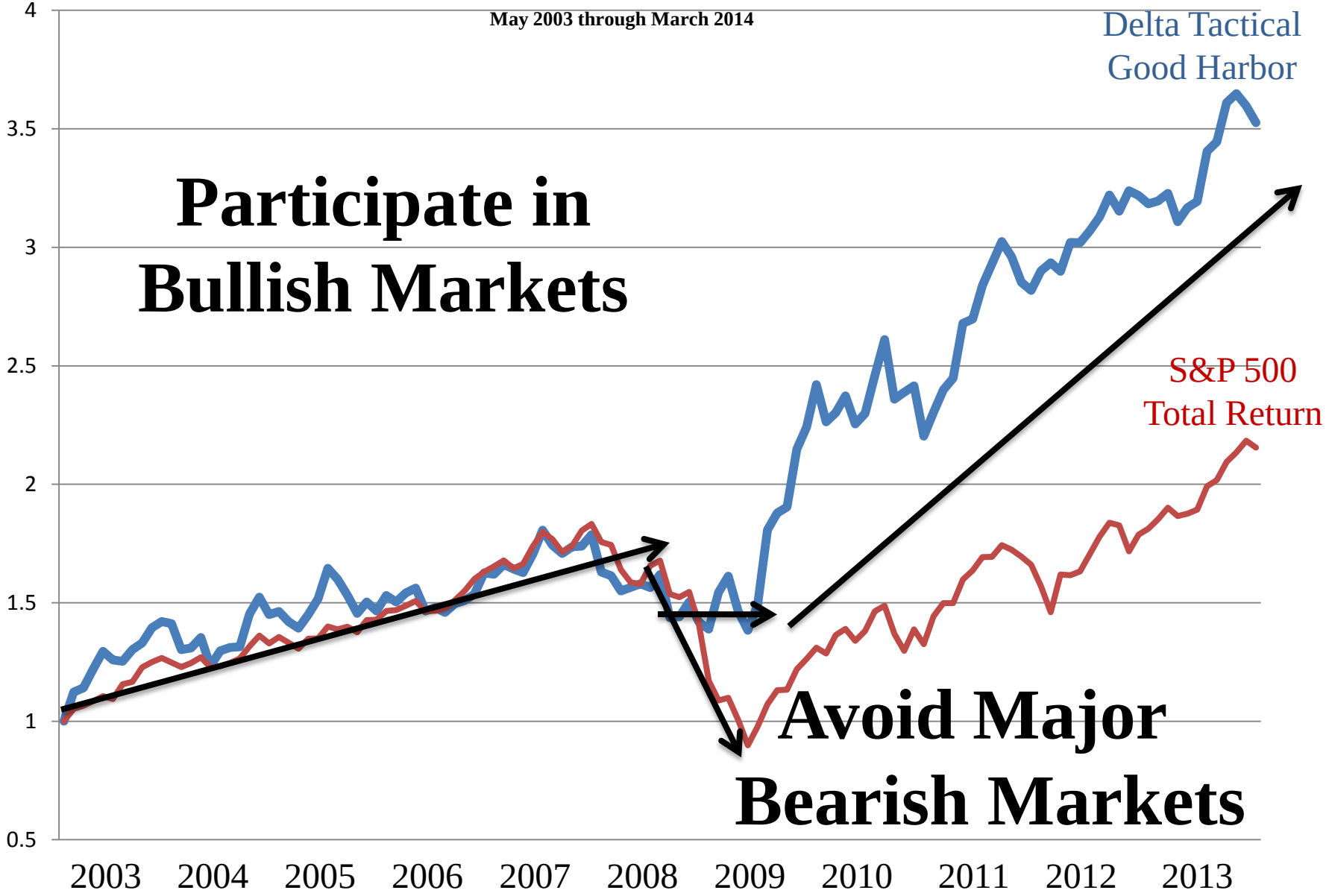
INVESTMENT
MANAGEMENT

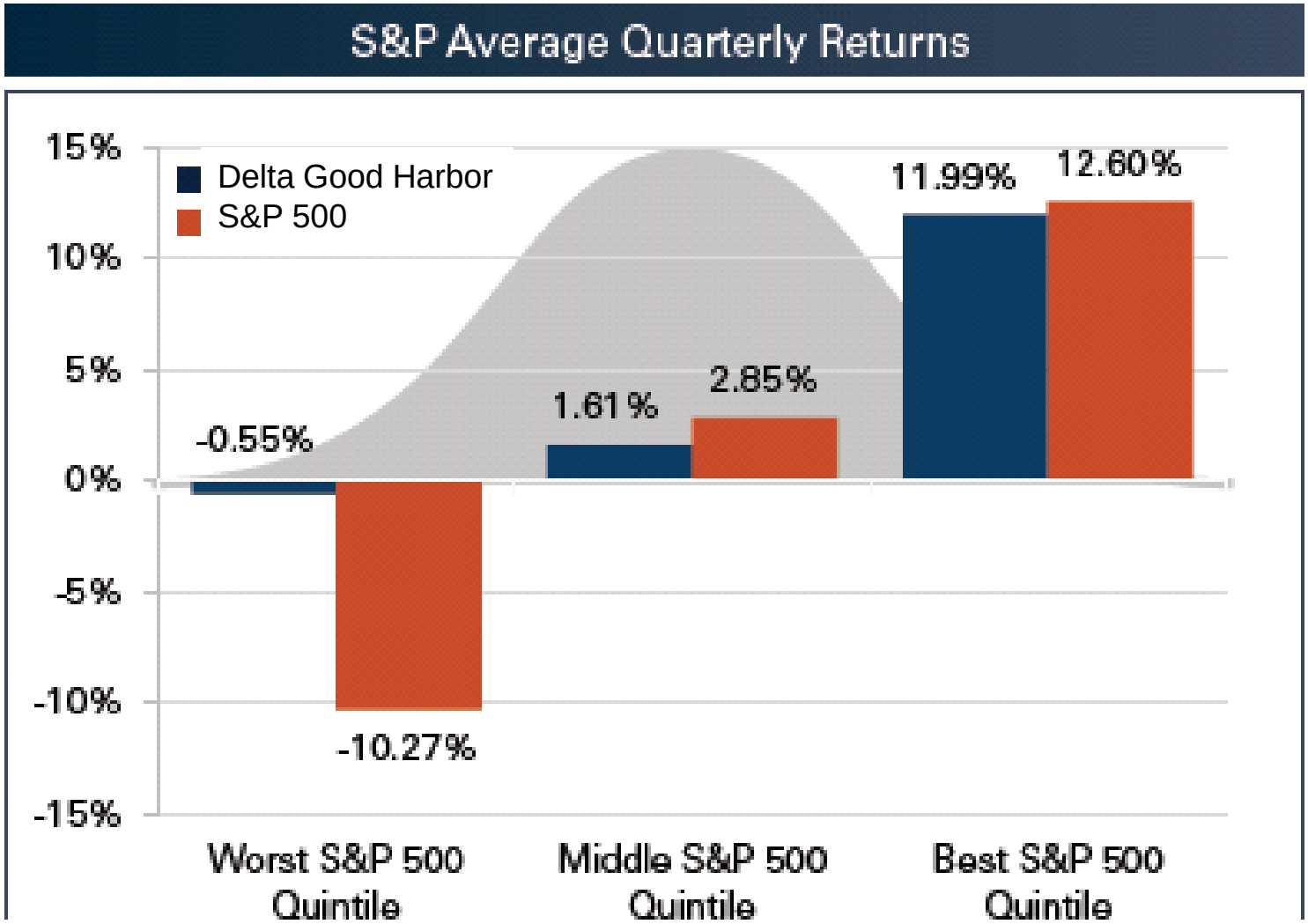
Delta Tactical Good Harbor



Important Disclosure: Past performance does not guarantee future results. Consider the investment objectives, risks, charges, expenses, and instruments used to implement a strategy before investing.. See full disclosures on website.

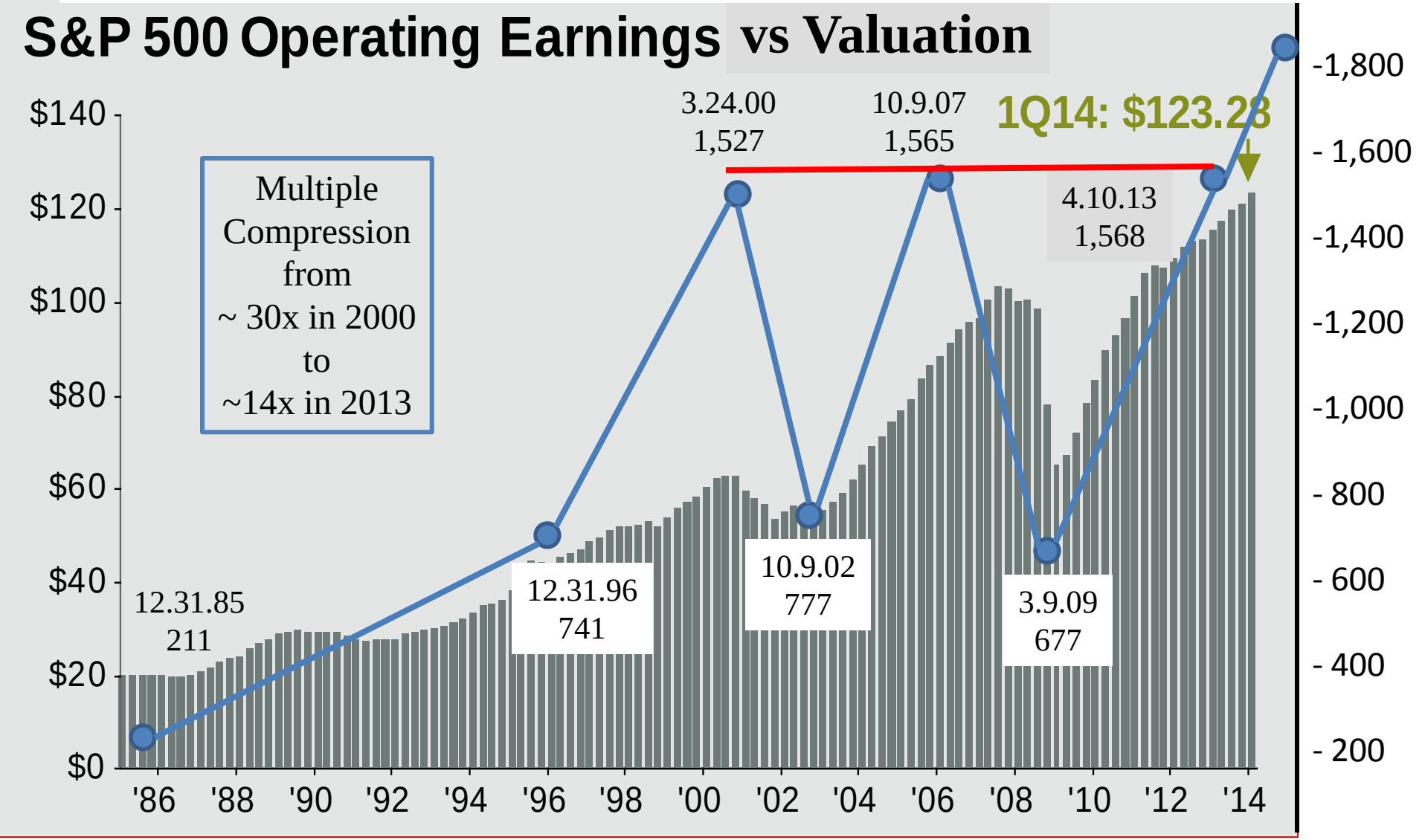
DELTA INVESTMENT MANAGEMENT

Delta Tactical Good Harbor Returns, May 2003 – Sep. 2013
Quintile Review



When To Buy

Earnings Is Not the Only Factor Driving Stock Prices Over Time
In Fact, It May Not Be Even the Most Important Driver of Price



High Relative Strength Stocks

Dorsey Wright & Associates
"Real-World" Testing of Relative Strength

In all 100 trials, high relative strength stocks outperformed the market. High RS stocks average return 227.1% vs. S&P 500 81.0%.

Table 1: Summary Data (Cumulative Returns)	
12/29/95—12/31/09	
# of Trials	100
Average Return	227.1%
Median Return	214.8%
Max Return	446.4%
Top Quartile	263.4%
Bottom Quartile	181.0%
Min Return	94.2%
S&P 500 Return	81.0%
% Trials Outperform	100%

DELTA INVESTMENT MANAGEMENT

High Relative Strength Stocks

Or

Use levered ETFs to increase beta

Example: 70% S&P 500 (IVV)
30% 2x S&P 500 (SSO)
Beta 1.3x

The point is, in bullish markets Get Long

Why Treasuries During Bearish Periods?

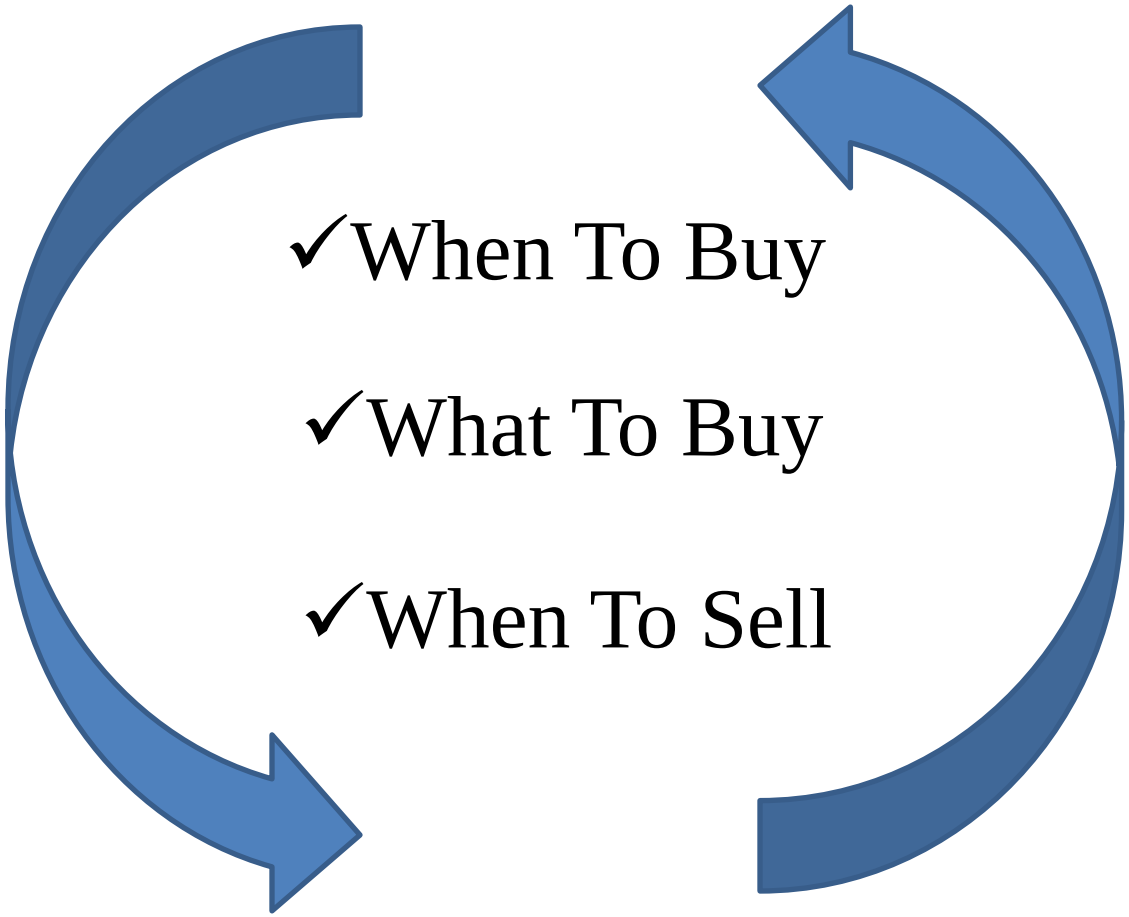
- U.S. treasuries usually outperform stocks during weak economic environments and as such are a useful defensive investment vehicle.
- Treasuries have historically been an effective “safe haven” in recessionary, rising rate, falling rate, inflationary and deflationary periods.
- Treasuries have tended to create both relative and absolute performance during weak stock market periods.

Decile	Avg. 10-Yr. Return	Avg. Yield	Avg. 10-Yr. Return During (-) S&P Months	Avg. S&P Return During (-) S&P Months	Diff
1	0.33%	2.85	0.14%	-3.22%	3.36%
2	0.45%	3.76	0.89%	-4.82%	5.71%
3	0.36%	4.13	0.52%	-2.28%	2.80%
4	0.40%	4.62	0.42%	-3.42%	3.84%
5	0.35%	5.43	0.36%	-3.19%	3.55%
6	0.60%	6.20	-0.09%	-2.54%	2.45%
7	0.72%	7.00	0.38%	-3.09%	3.47%
8	0.55%	7.73	-0.13%	-3.68%	3.55%
9	0.54%	8.72	0.22%	-4.05%	4.27%
10	1.05%	11.97	0.06%	-2.50%	2.56%

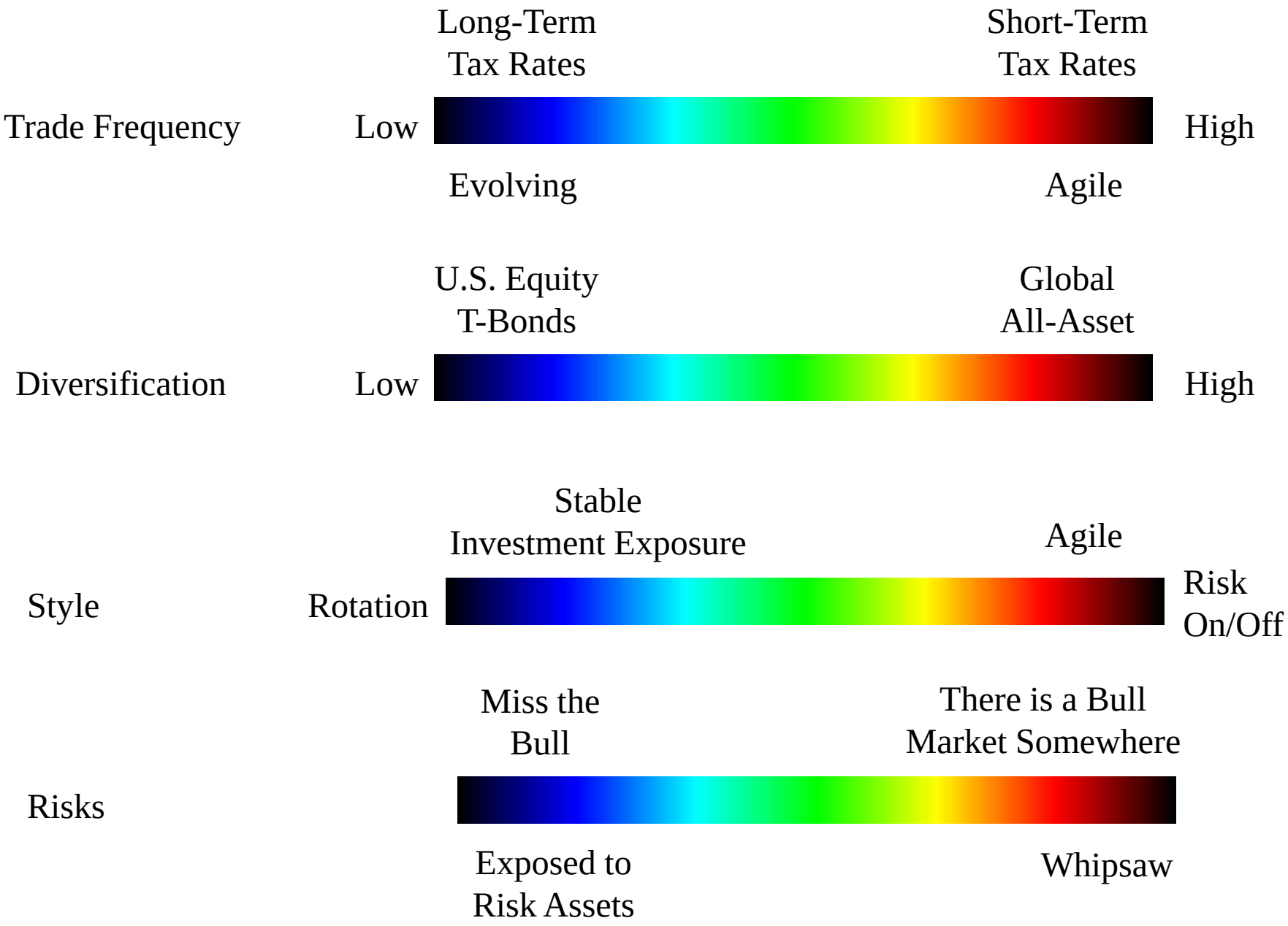
Average monthly performance of a constant maturity 10-year treasury index during negative S&P 500 months broken out by decile.

1953-2010, Data: Bloomberg

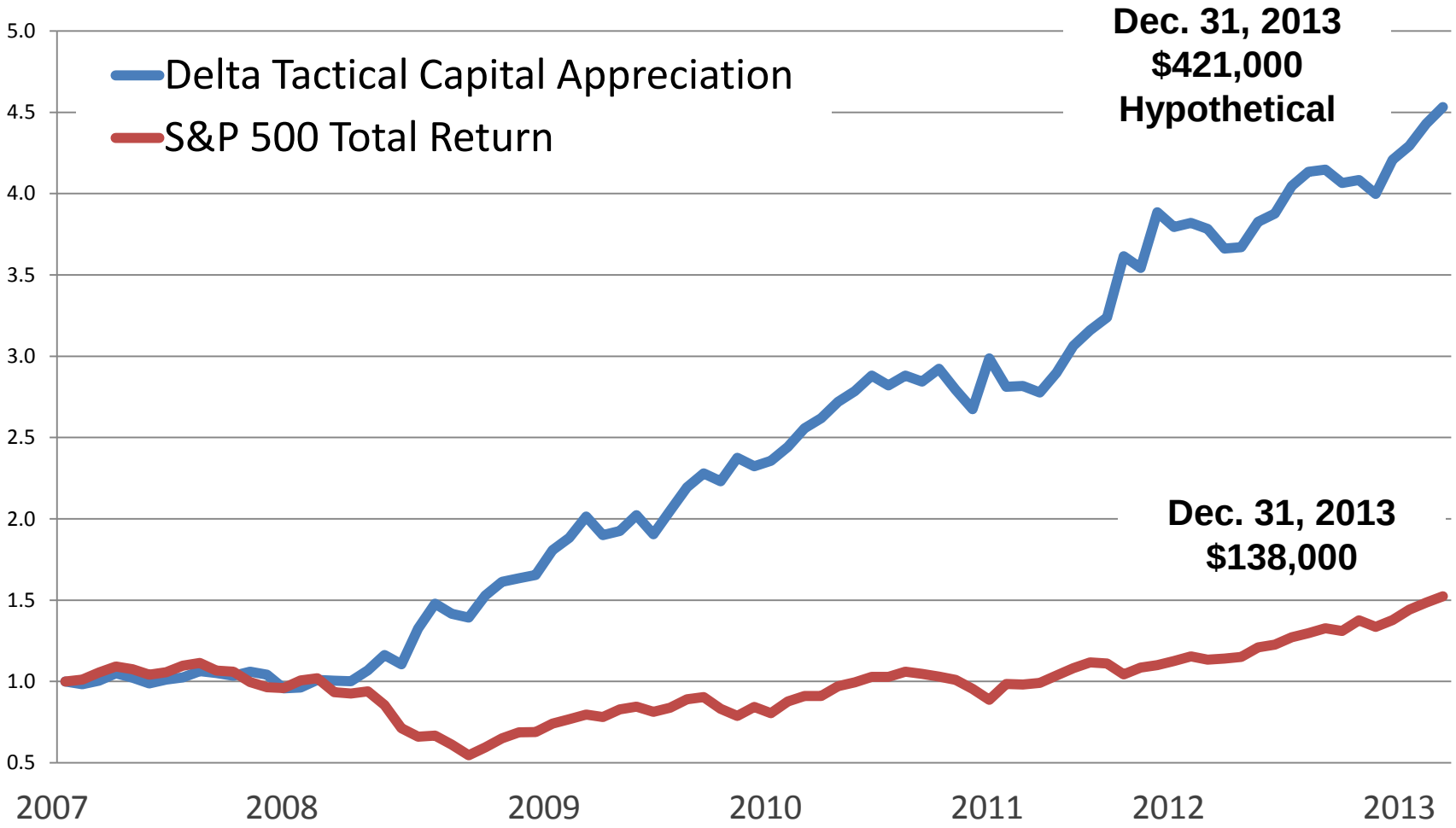
The Tactical Investment Process



Tactical Strategy Investment Considerations



Delta Tactical Capital Appreciation



APR: 24.8%
S&P 500 TR: 6.4%

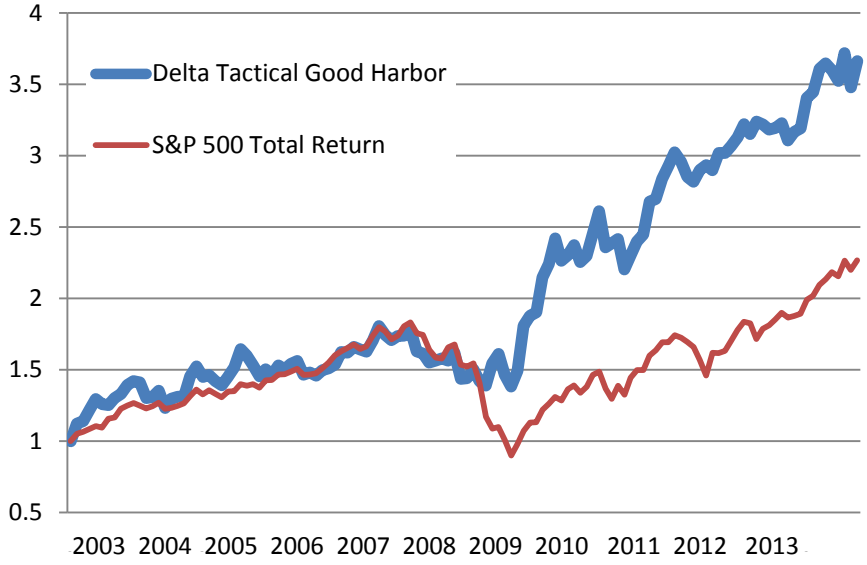
Max Drawdown: 9.6%
S&P 500 TR: 51.0%

2008: +42.8%
S&P 500: -37%

Important Disclosure: Past performance does not guarantee future results. Consider the investment objectives, risks, charges, expenses, and instruments used to implement a strategy before investing.. See full disclosures on website.

DELTA INVESTMENT MANAGEMENT

Delta Tactical Good Harbor



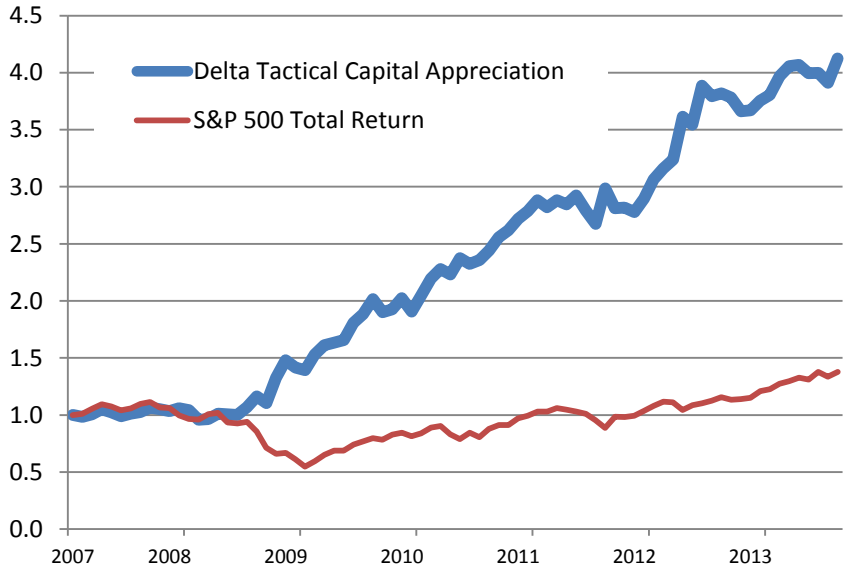
Good Harbor:
Audited Results:
2003 to Today

Important disclosures at
www.deltaim.com

Capital Appreciation:
Audited Results
2013 to Today
Hypothetical Returns
2007 to 2013

Important disclosures at
www.deltaim.com

Delta Tactical Capital Appreciation



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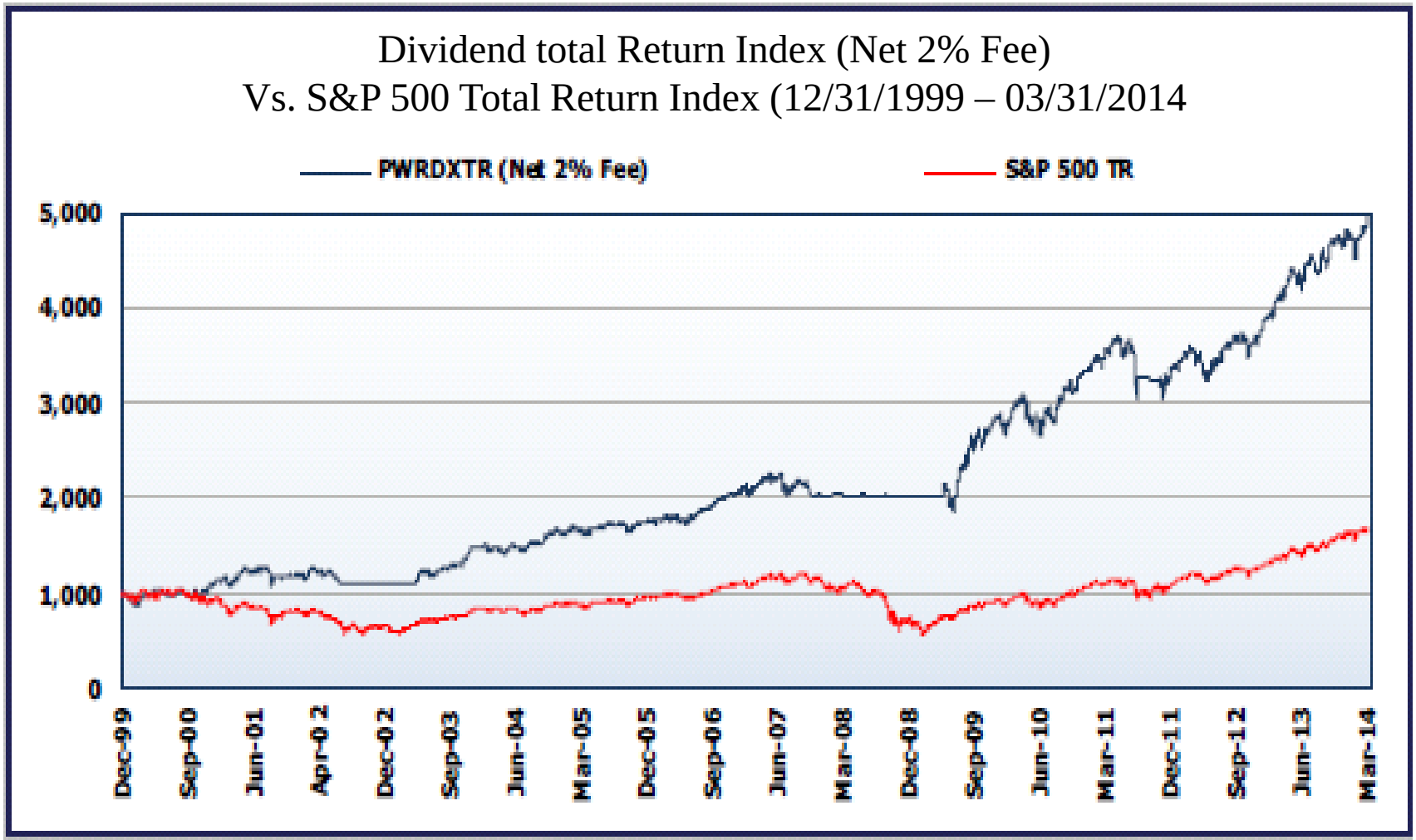
DELTA INVESTMENT MANAGEMENT

Delta Tactical Dividend

- 50 High Dividend Paying Stocks
- Equally weighted across 10 S&P 500 Sectors
- Current yield 4.18%
- MAC Model for Risk Mitigation
- When Defensive, in 90-day t-bills



Delta Multi-Fund Diversified

Fund Highlights:

- Global Equity, Bond and Commodity exposure
- Diversification through 11 mutual funds
- Dynamically managed
- All 11 investment sleeves may transition to cash

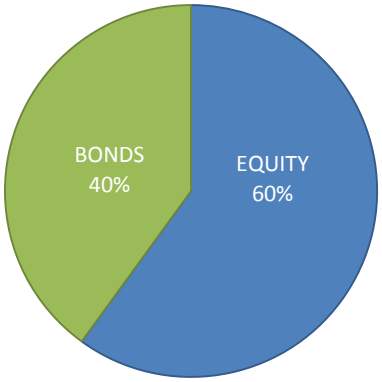
Portfolio Construction

100% Tax Deferred
Money
e.g., IRA, Roth IRA
401k Rollover, etc.

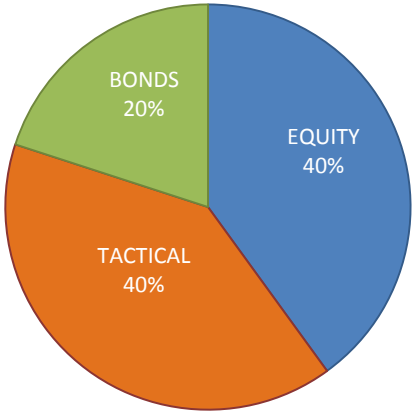
Take Full Advantage of
the Tax Advantage
Offered by the
Tax Code

Portfolio Construction

Traditional 40% / 60% Asset Allocation

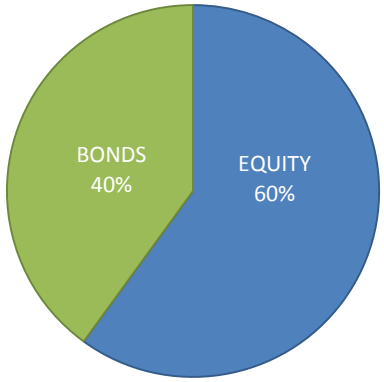


Replace half of the bond and a third of the Equity Allocations with Tactical – Total Portfolio Tactical Allocation Equals 40%



Portfolio Construction

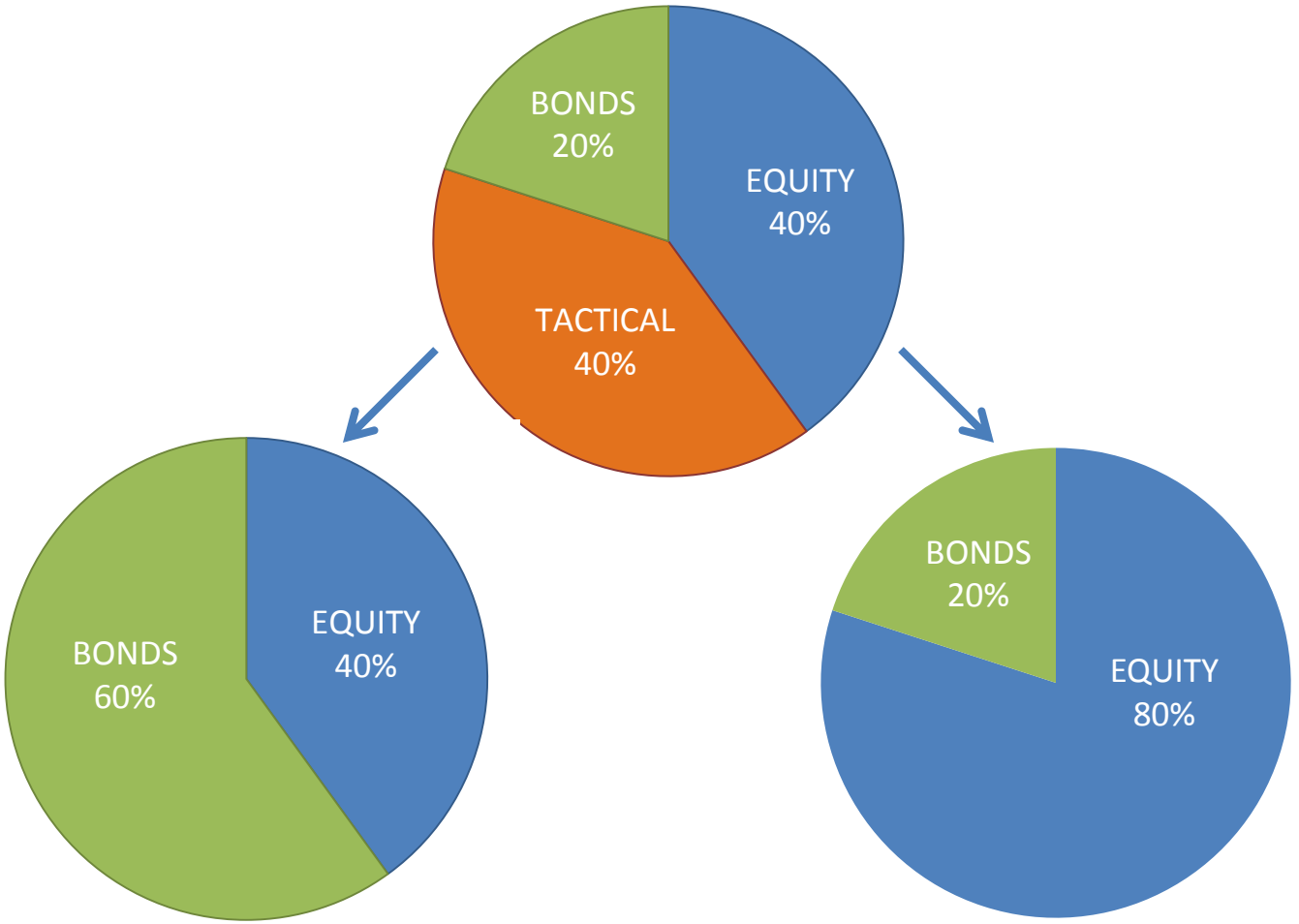
Traditional 40% / 60% Asset Allocation



The weakness is the concept of just tough out the tough times.

This could be particularly difficult if interest rates rise and Bonds and stocks depreciate

Impact of Equity/Bond Tactical Strategy on the Portfolio



Bearish
60% Bonds / 40% Equity

Bullish
20% Bonds / 80% Equity

DELTA INVESTMENT MANAGEMENT

Delta MSI

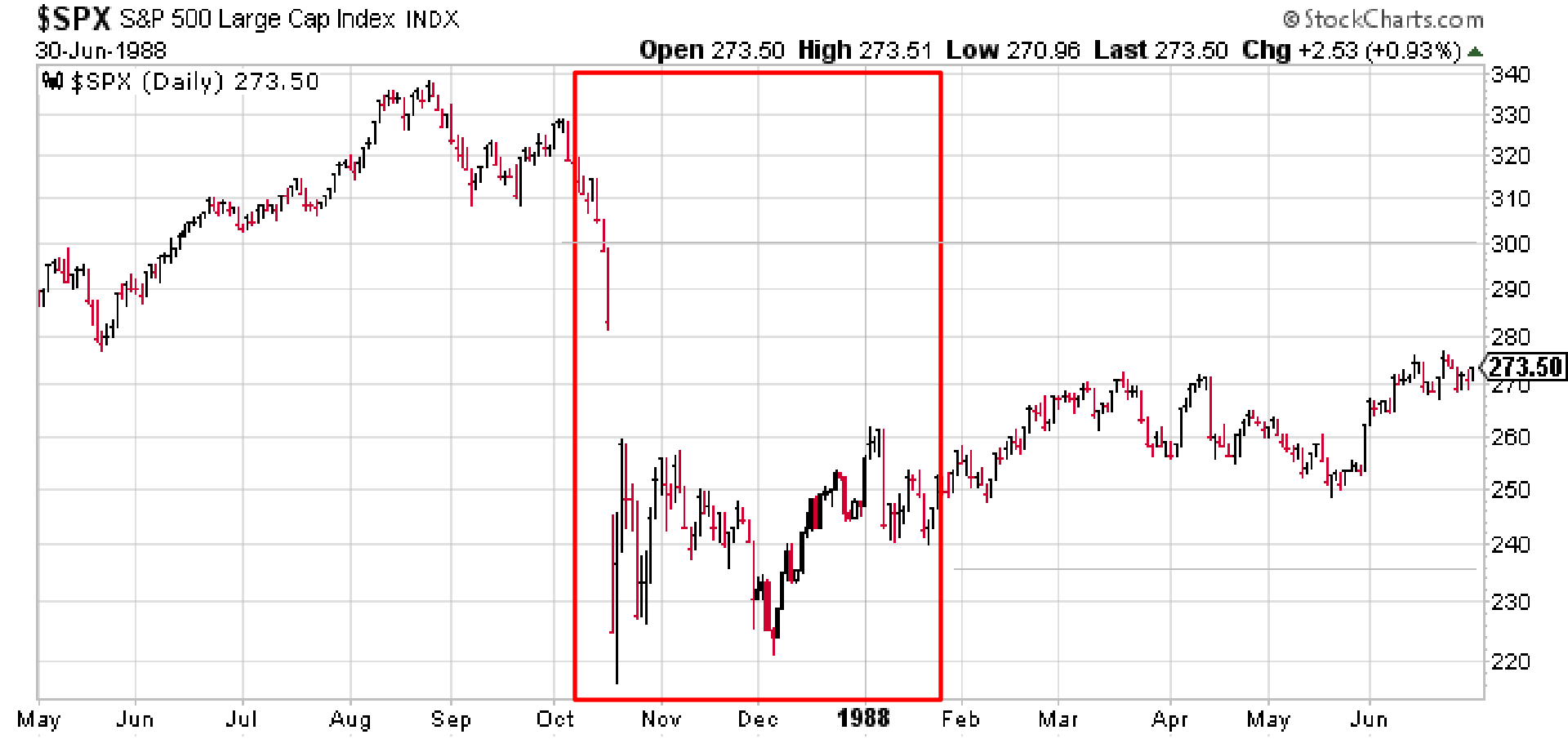
Important Moments in History

1987 Market Crash

October 19, 1987 – Black Monday, 21% Decline

Bearish Signal: October 5, 1987

Bullish Signal: January 25, 1988



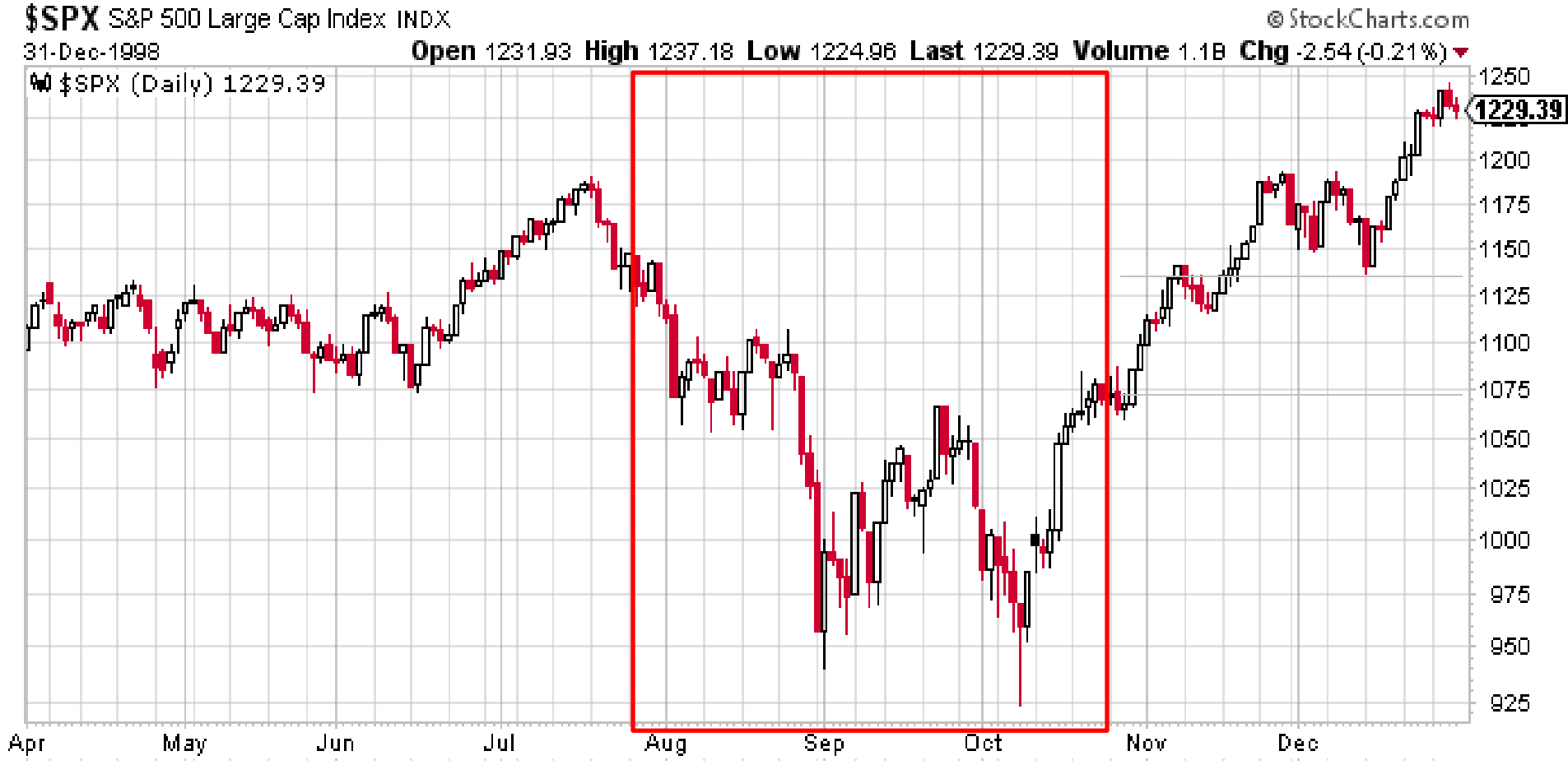
Bear Market	Duration (Months)	Decline	New Market High	Recovery (Months)
Aug. 1987-Oct.1987	3	-35.9%	Jul. 1989	21

DELTA INVESTMENT MANAGEMENT

1998 Asian Financial Crisis

Bearish July 27, 1998

Bullish October 19, 1998



Bear Market	Duration (Months)	Decline	New Market High	Recovery (Months)
Jul 1998-Oct. 1998	4	-22.4%	Nov. 1998	1

DELTA INVESTMENT MANAGEMENT

2000 – 2003 Technology Bubble Burst

Multiple Signals

Bear Market	Duration (Months)	Decline	New Market High	Recovery (Months)
Mar. 2000-Oct. 2002	32	-50.5%	Jul. 2007	57

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September 11, 2001

Bearish July 12, 2001

Bullish November 5, 2001

DELTA INVESTMENT MANAGEMENT

2007 – 2009 Financial Crisis

Bearish November 8, 2007 – Bullish April 7, 2008

Bearish June 19, 2008 – Bullish April 9, 2009

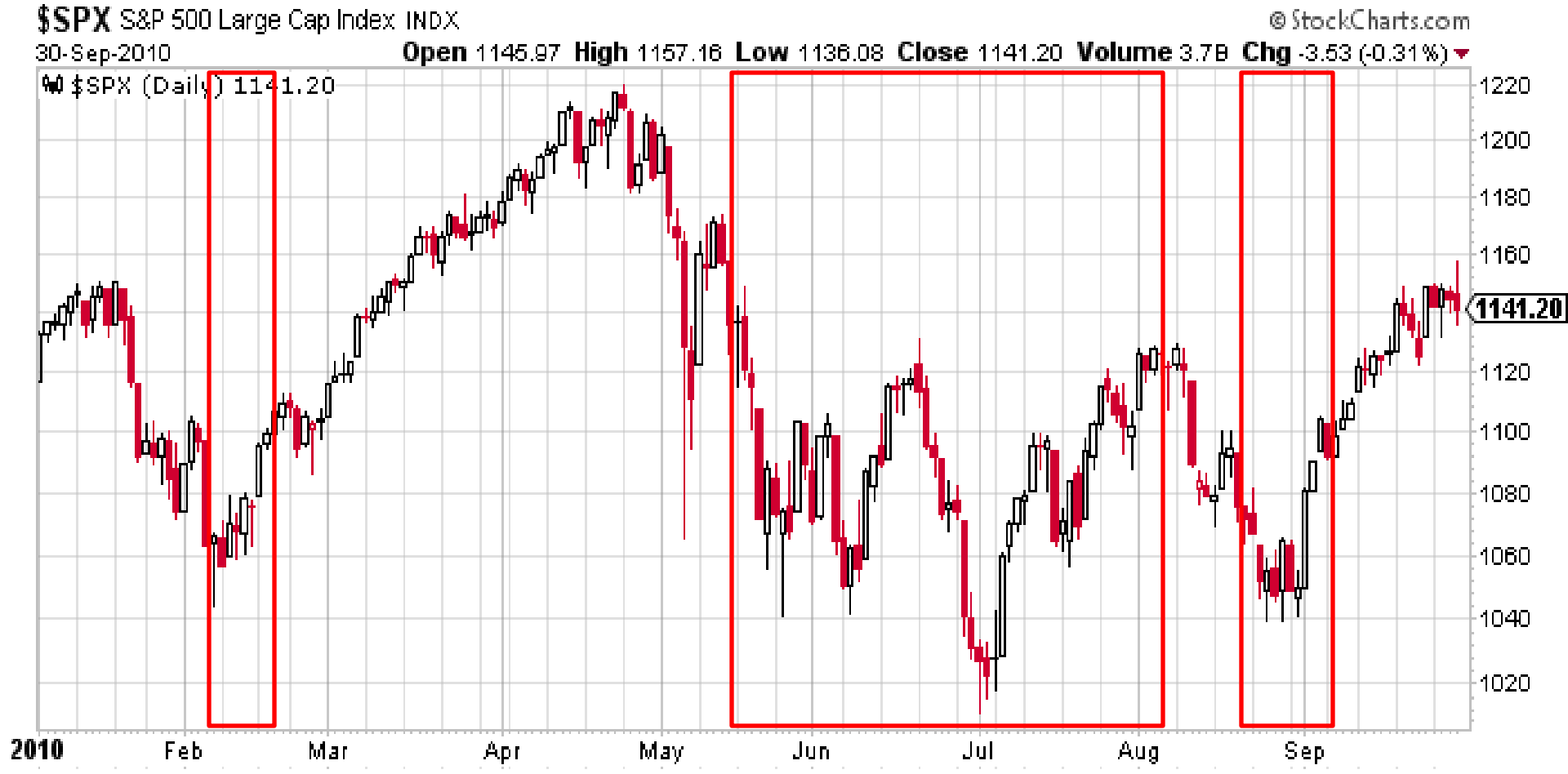
Bear Market	Duration (Months)	Decline	New Market High	Recovery (Months)
Oct. 2007-Mar. 2009	17	-57.7%	Apr. 2013	49

DELTA INVESTMENT MANAGEMENT

2010 – Flash Crash May 6, 2010

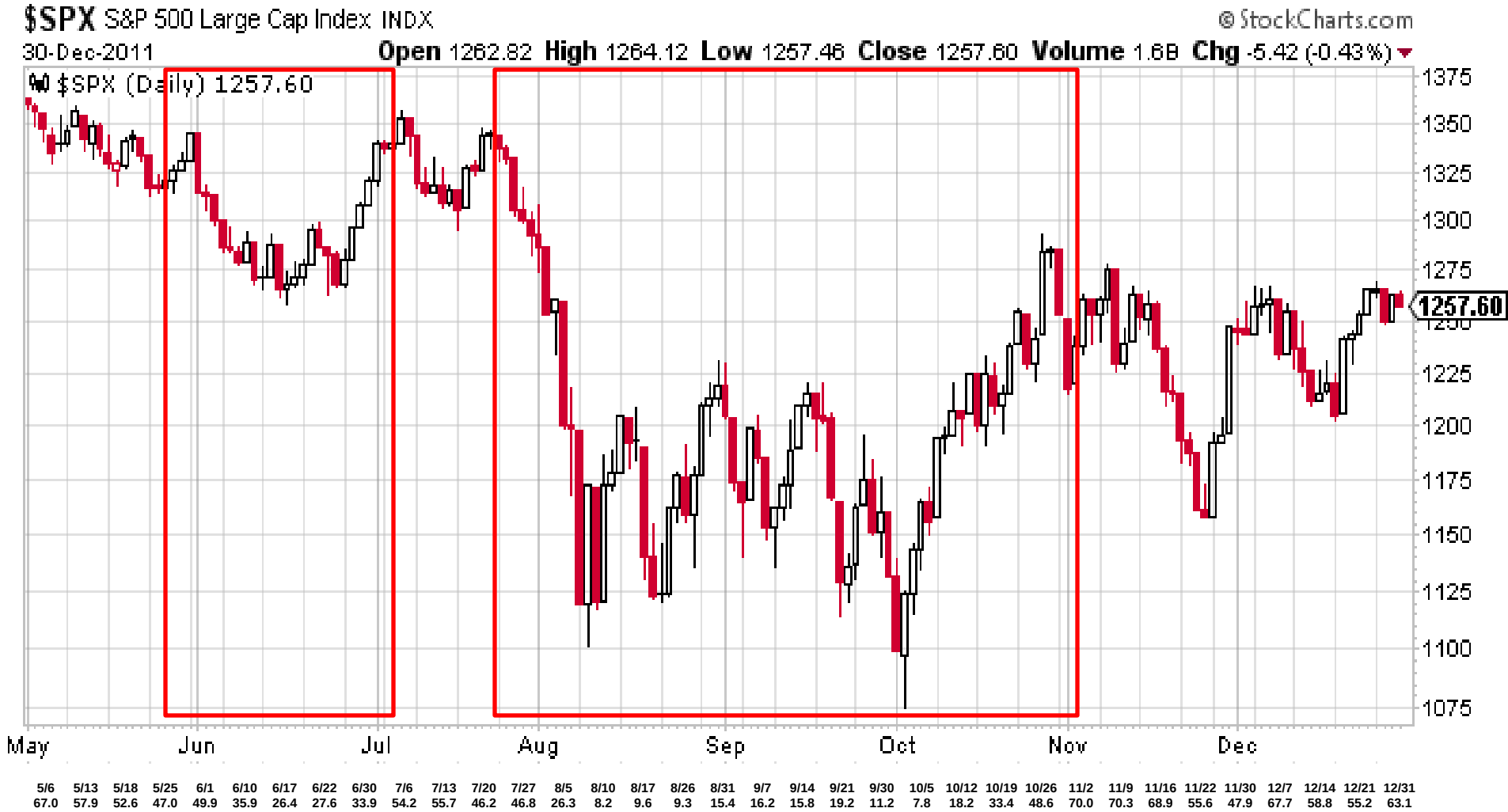
Sold May 14, 2010

Bought August 4, 2010



2011 – Debt Ceiling Negotiation

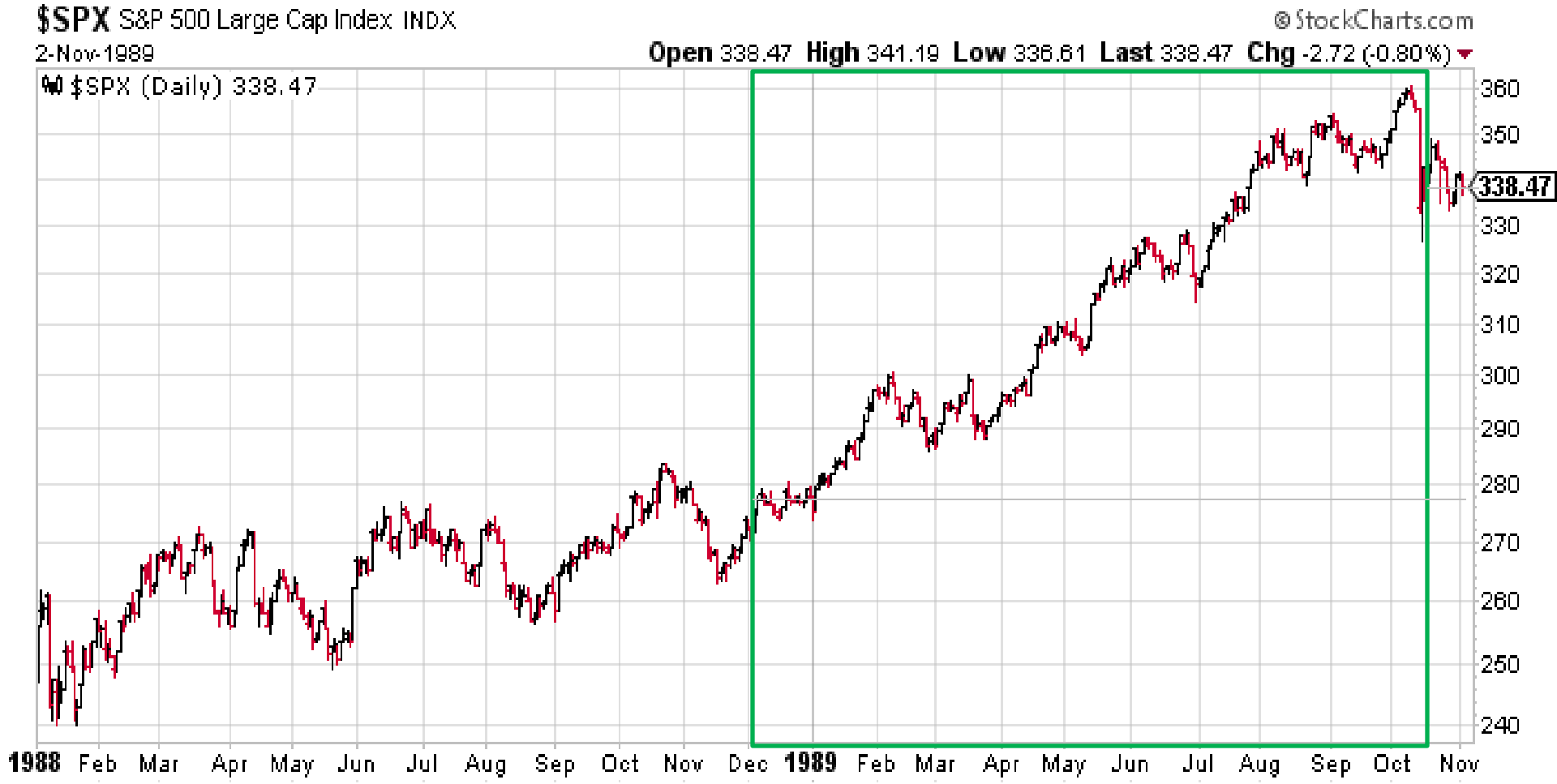
Sold July 27, 2011



DELTA INVESTMENT MANAGEMENT

Delta MSI Captures Bullish Trends

December 1988 – October 1989



DELTA INVESTMENT MANAGEMENT

January 1995 – April 1996

DELTA INVESTMENT MANAGEMENT

April 2009 – November 2009

DELTA INVESTMENT MANAGEMENT

IBD'S ETF Market Strategy

OVERVIEW

IBD's **Market Pulse** feature has a long history of recognizing shifts in market direction early on to help investors maximize gains in uptrends and protect their portfolios in downtrends. Now we've developed a simple method for trading market index ETFs based on the market direction posted daily in the **Market Pulse**.

Market Direction
Market in correction
% Invested: 0%

HOW IT WORKS

Invest in a market index ETF (QQQ was used in the study) immediately after a new uptrend is announced in **Market Pulse** and employ these simple allocation rules:

Market direction	% invested
Confirmed uptrend	100%
Uptrend under pressure	50%
Market in correction	0%
Optional stop loss: Nasdaq falls 2.6% below closing value of uptrend's first day	0%

DELTA INVESTMENT MANAGEMENT

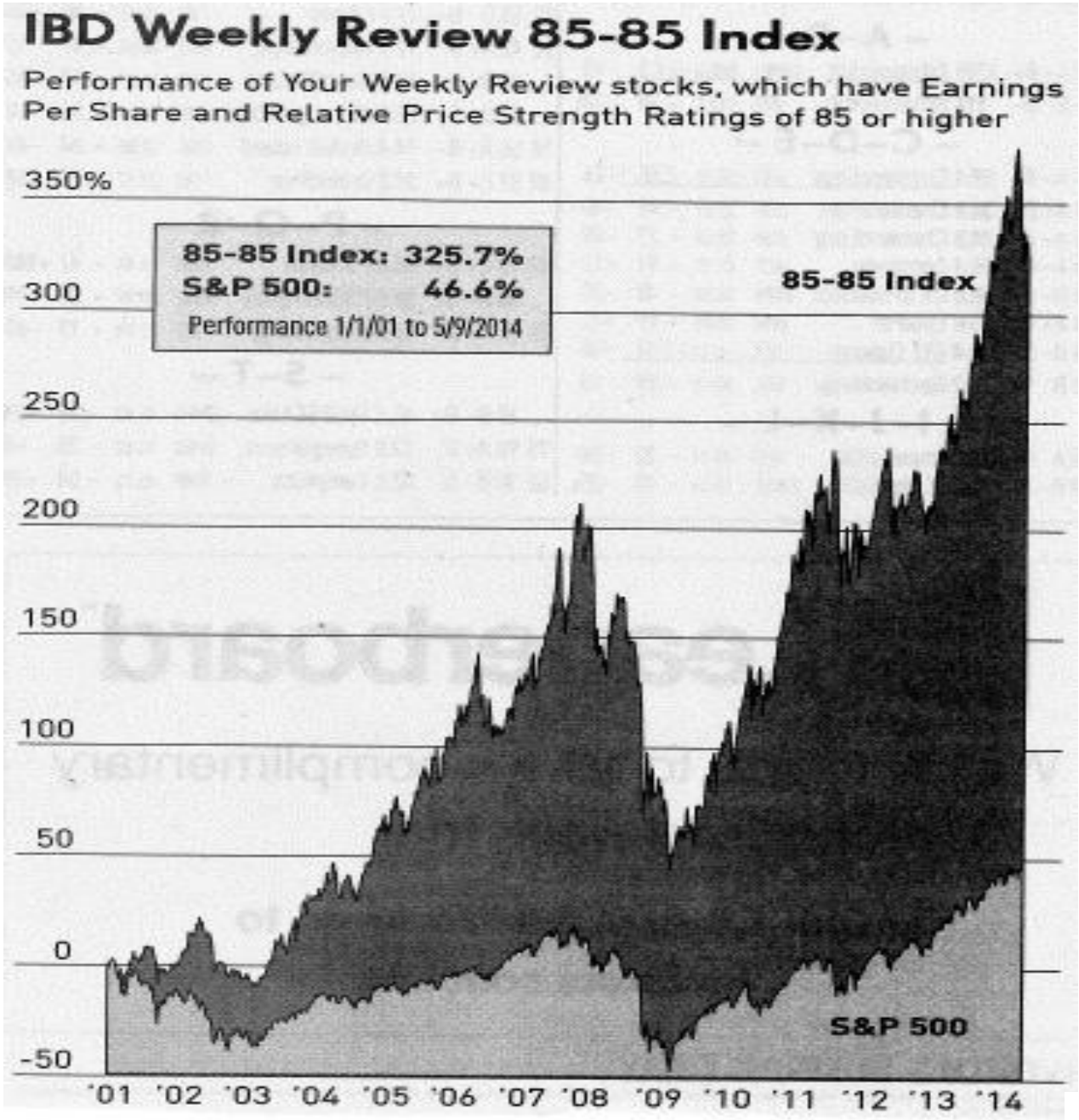
HOW IT PERFORMS

Since 2003, IBD's ETF Market Strategy produced an estimated cumulative return of:

For complete details on IBD's ETF Market Strategy go to:

Investors.com/ETFStrategy

DELTA
INVESTMENT
MANAGEMENT



DELTA INVESTMENT MANAGEMENT

MAC Market Timing

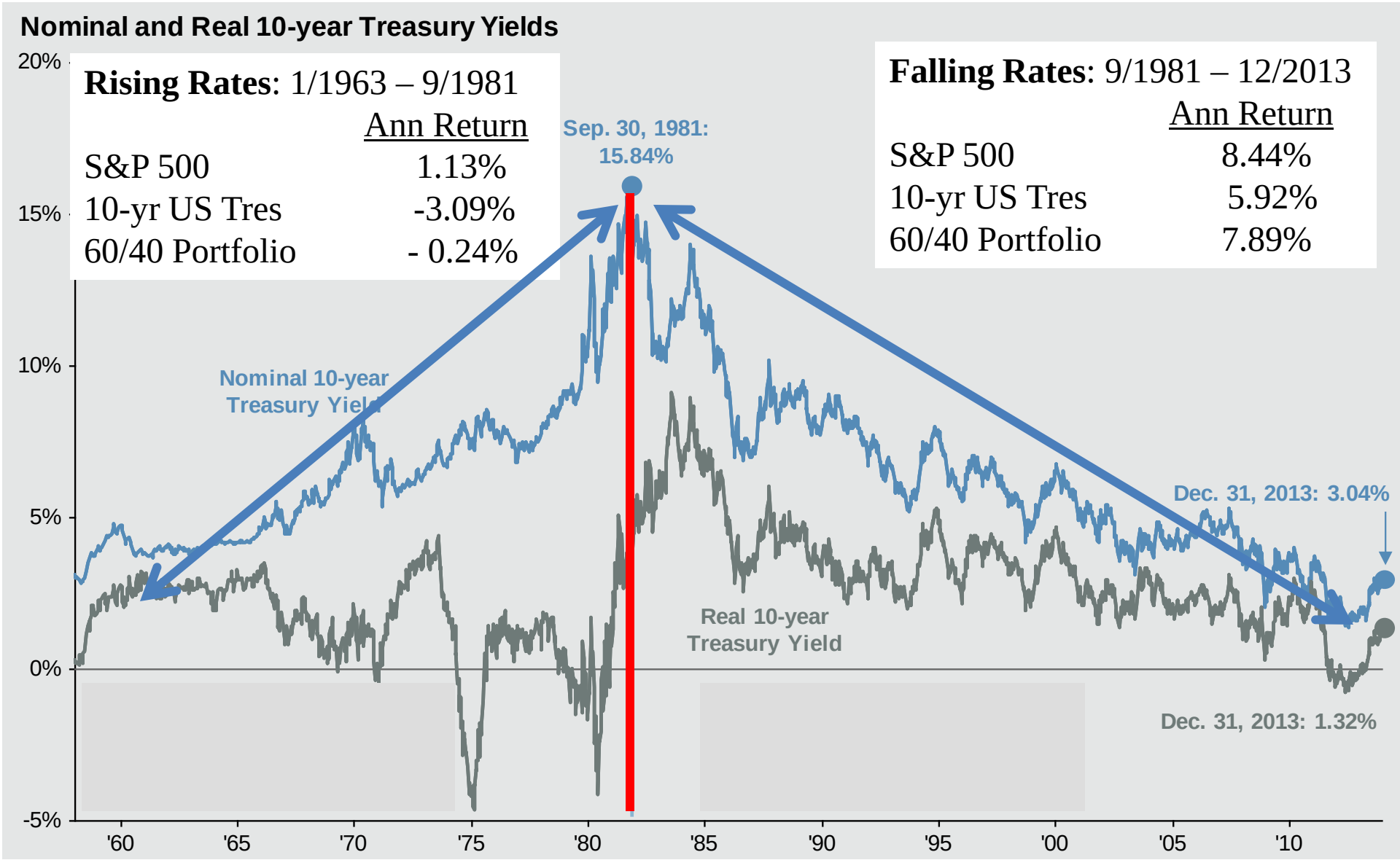
+ High Relative Strength Stocks

= Tactical Capital Appreciation

U.S. 5 and 10-Year Treasuries Show Average Positive Performance During Recessions

Market Environment (1981-2008)	Average Monthly Return				
	Large Cap	Mid Cap	Small Cap	10-Yr Bond	5-Yr Bond
Recessions	-0.83%	-0.42%	-0.52%	1.55%	1.31%
Front Half of Recession	-1.56%	-1.04%	-2.08%	0.71%	0.82%
Back Half of Recession	0.03%	0.31%	1.32%	2.54%	1.88%

Investment Returns – Rising and Falling Rates



Source: Federal Reserve, BLS, J.P. Morgan Asset Management.

DELTA INVESTMENT MANAGEMENT