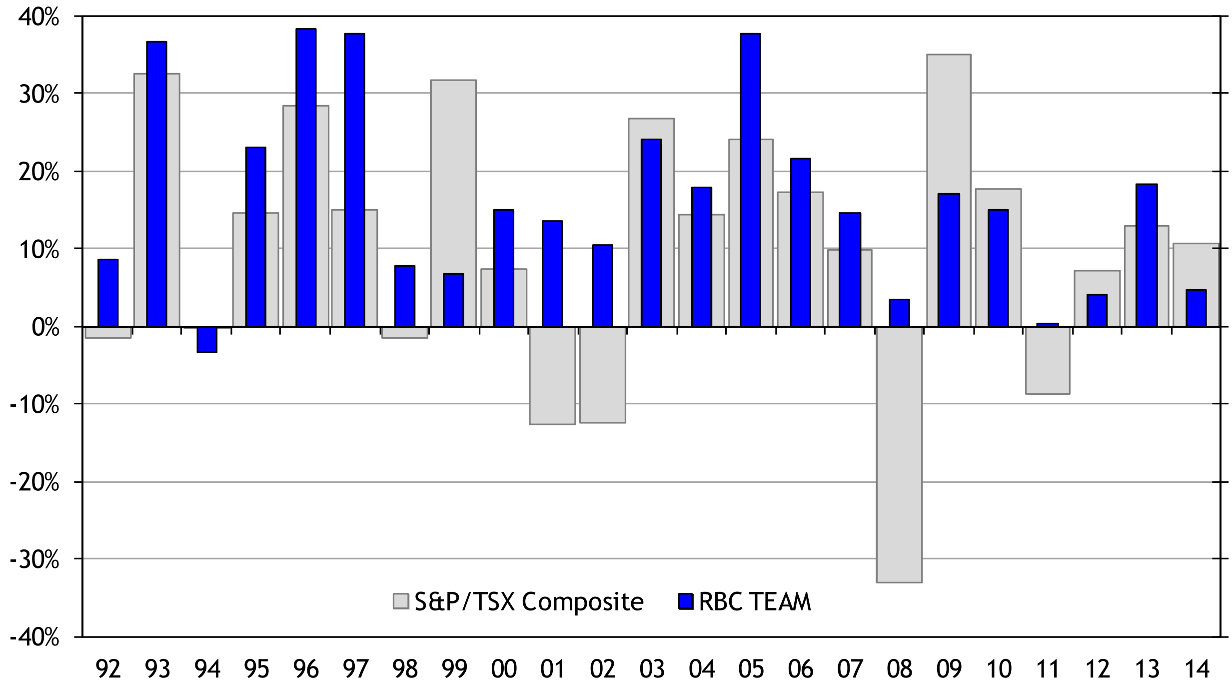
October 12th 2015

“Won2One” with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: **0%** Equities/ 10**0%** Fixed Income
S&P/TSX 60 Closing Value: 13,964
TSX 200 Day Moving Ave: 14,595
% Above/Below 200 Day Moving Ave: **4.32% Below**
Levels for change: 100% stocks - **TSX 15,324** and 100% fixed income – **TSX 13,865**

Weekly Quote

Why an army of sheep led by a lion is better than an army of lions led by a sheep.

Nassim Nicholas Taleb – you be the judge of what he might be referring to…

Building a Financial Plan

If there is one thing there is no shortage of in the investment industry, it is financial plans!

We are all told to have one…"how do you get to where you want to go if you don't know where that is?" Absolutely true…

How a plan is cobbled together is we use your financial profile to calculate and present a myriad of detailed financial facts that will be analysed to create a possible picture of what your financial future may look like.

Finally, once the plan is completed you have to commit to "doing what is in the plan" for the plan to be valid and possibly work out.

I have also quipped to people who ask me about financial plans…"**if you start with a big pile of money it is a lot easier to plan than if you start with only a little one**!"

Who knew?

Please don't get me wrong…financial plans are great. **But the reason plans are great is not because of the plan as much as the person commits to a financial discipline that sees them saving on a regular basis and investing the savings wisely**.

But let's assume you have got a great plan, you are committed to the details required of you in the plan, and you have the discipline to live it out. What could possibly go wrong?

The two obvious bumps in the road would be:

1. Life surprises
2. Disappointing investment choices

The life surprises variable is impossible to control…that is why they call them surprises!

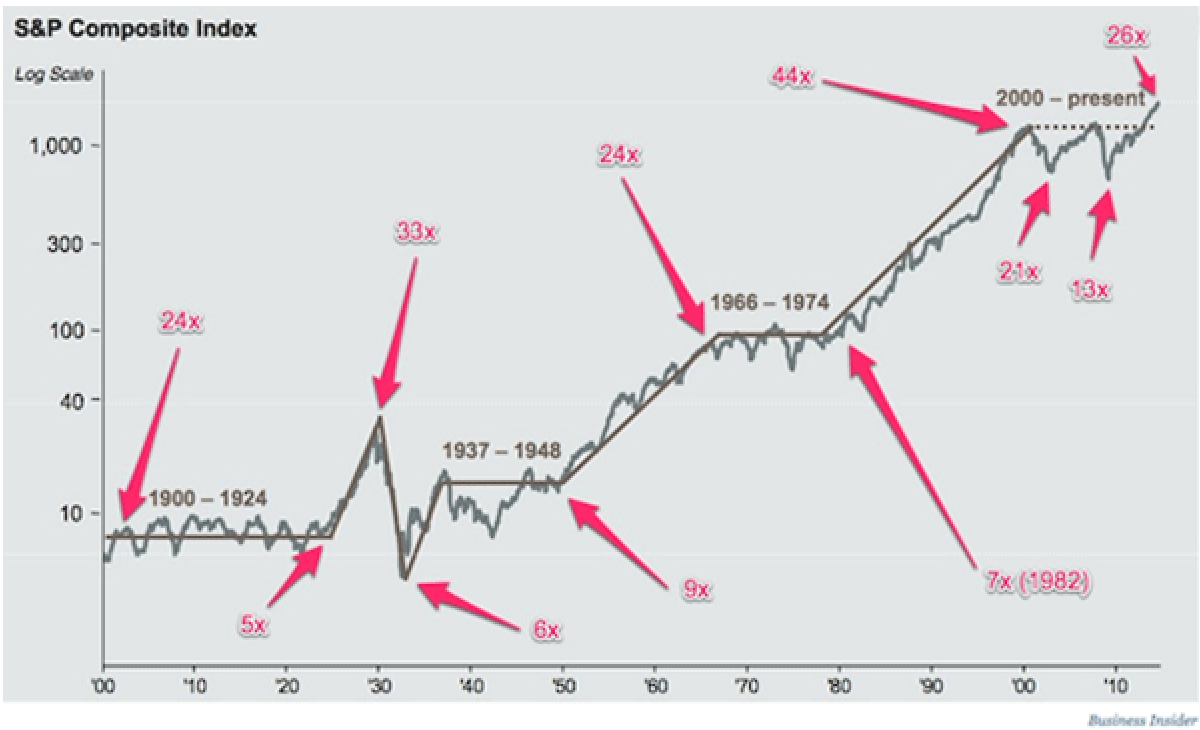
And the disappointing investment choices? I believe this is the most challenging hurdle investors will face in the coming 15 years.

You see, we are starting from an "expensive" point in time…not cheap. A quick review:

Cash - is never expensive or cheap, but today it pays nothing.

Bonds – have delivered the highest rate of return of any of the four asset classes during the past 15 years because their return is based on both their cash flow and capital value. As interest rates decline their values rise. But bonds are very expensive today and are not going to give much of a rate of return…how can interest rates fall much from here?

Stocks – probably best to look at a chart when making a valuation call on stocks. The chart comes from Henry Blodget's blog and makes the valuation case on stocks pretty clear cut. We are at the third most expensive valuation in history…only 1929 and 2000 saw stocks at more expensive P/E multiples.



Real Estate – is dependent upon individual variables and "value" is tough to nail down. I doubt anyone is going to say real estate is cheap here…and real estate will get killed the worst the next time interest rate goes up.

In summary, it is not easy to put your money in a cheap asset class!

Below is a fictitious example of a middle class family.

Dick and Jane raised a middle class family. They survived on a median income and now at ages 61 and 60 find themselves with no children left at home, a small mortgage, a car payment, and the odd small lump sum going out to help one of their three children periodically. Dick and Jane have about $250,000 in savings and a defined benefit pension payment of $1100 per month. Both are receiving Canada Pension Plan payments that total another $1450 per month.

Dick and Jane need $4000 per month pre-tax to live the lifestyle they desire.

The question is…how should their $250,000 in savings be invested?

The math is simple…the answer much more difficult.

Dick and Jane need to realize a pre-tax 7% rate of return on their savings to generate the necessary total pre-tax income of $4000. How does one go about that?

Now, we get to the meat of the conversation.

Let's go back to our main asset classes defined above. Cash…no 7% there. Bonds…nope. Stocks…forward P/E based quantitative models think stocks should provide less than 3% per year for the next 10 years. Real estate…maybe, but with how much risk?

In my opinion, to be completely transparent and realistic, if an investor is building a financial plan with a rate of return using a 7% yield for a balanced portfolio over the coming 10 years they are going to be sorely disappointed. Your only bet is that the present financial bubble continues to double again from here in that time frame…

So what yield should you use?

For the buy and hold investor, my guess would be something in the 3.25% range…and that requires at least a 2/3rds exposure to stocks and real estate.

For the more nimble investor, I think something closer to 4.5% - 5% is possible.

If you have a financial plan presently that is looking at projected rates of return above 7% and you want a second opinion on that plan feel free to give me a call. Last week I made the offer to clients to have complimentary financial plans done as long as they had more than $500,000 invested with us at RBC Dominion Securities.

But the review offer is open to everybody…client and non-client. Just contact me and we can set up a time.

"Market Update"

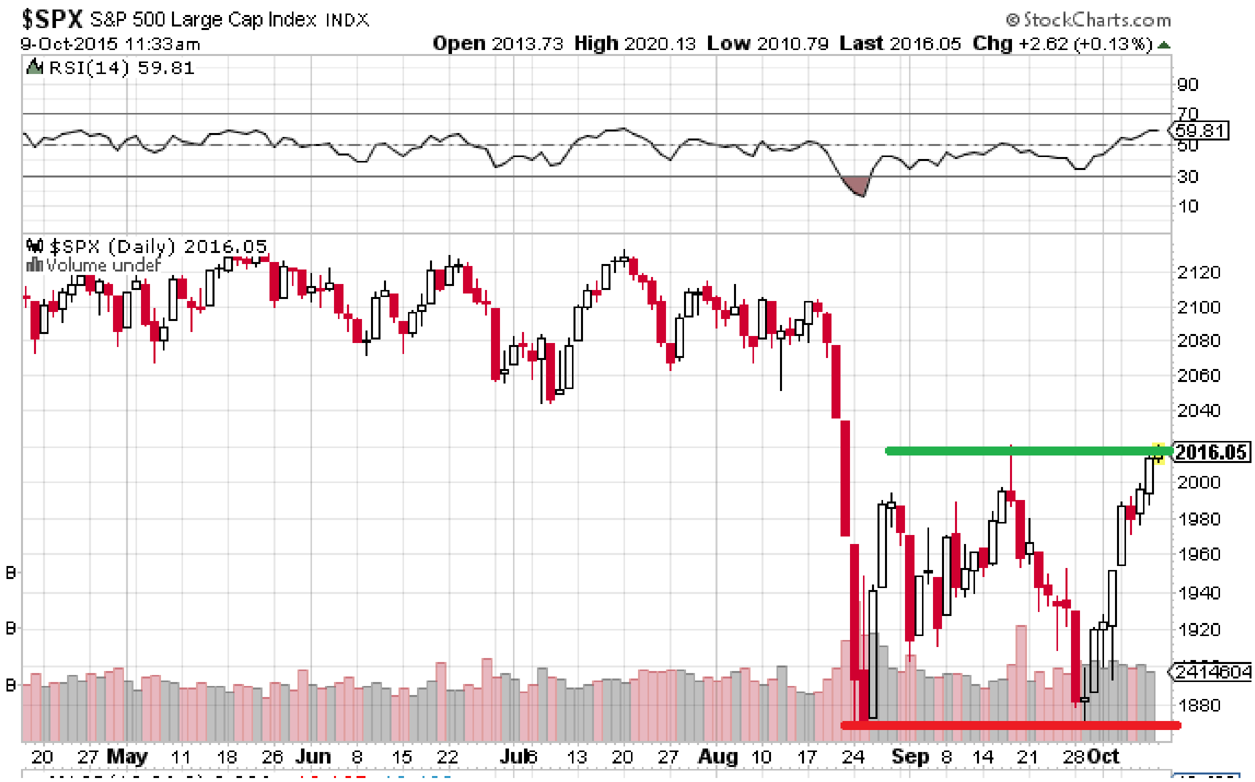
Incredible stock market rally…the most beat up, most shorted, most hated stocks around the world took off like a shot and added about 4% depending upon the country you look at.

Interestingly, US banks were missing in action for the rally. So was Apple, and the biotech stock index…Hmmm?

Oil and Golds ripped higher.

The failure of the US FED to raise ¼ of a percent from zero was definitely a catalyst that got the party started but large “short squeeze” was the rocket fuel to keep it going.

Let’s look at a chart of the S&P 500 and ask ourselves a question:



The green line shows the potential for a “double top” in the S&P 500…the red line depicts a possible “double bottom.” Time will tell if either of these technical formations is valid.

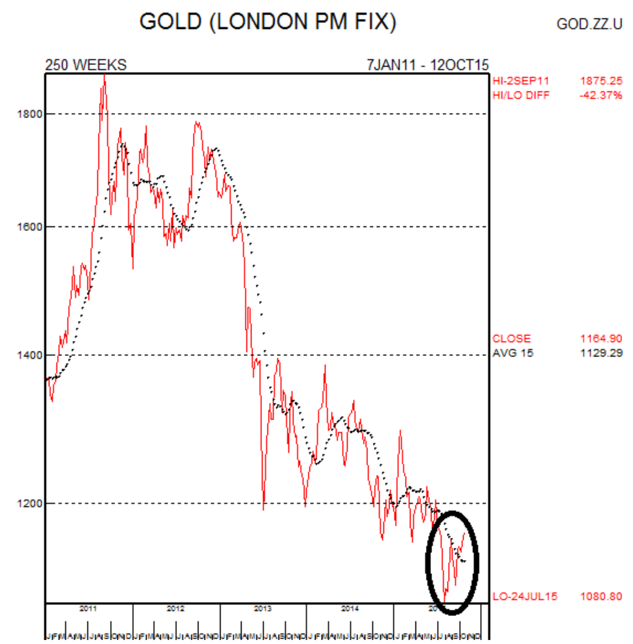
What I have found more fascinating is the question hedge fund managers are asking: ***Are the stock markets going to be able to manifest a lasting rally again on globally weak economic news and the hope for more central bank QE?***

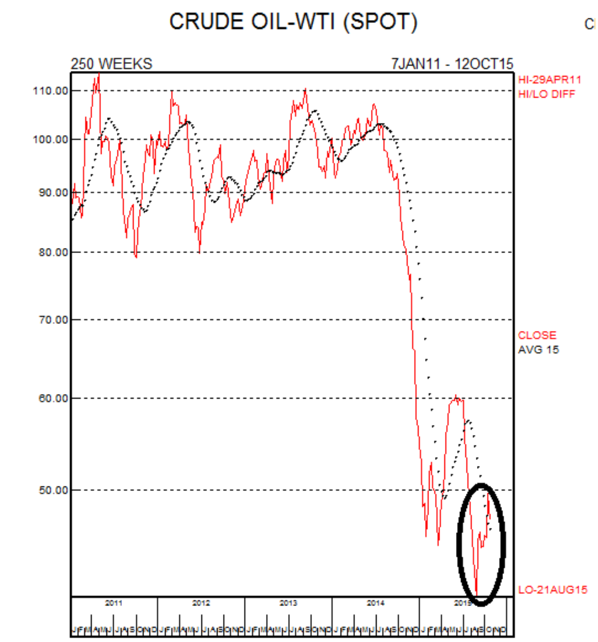
In other words, after 7 years of QE lifting asset prices based on the hope that someday the “main street” economy will get its story straight; do financial markets make the same moves again?

Something feels different this time to me. Look at the strong moves in commodity prices…and the new downtrend in the US dollar. Let’s give this more time to see how asset prices begin to settle into their new higher levels.

Gold and Oil

Oil, gold, and bank stocks were part of my view that if/when QE4 was announced those assets would outperform. Well, we have not seen QE4 yet, but more investors feel it is inevitable given the FEDS lack of desire to raise interest rates AND the weaker economic data that persists through the global economy.





If this trend persists my guess is Gold will overtake Oil in relative performance. The reason for this belief is that the weaker economy will eventually cap oil prices BUT IT WILL ULTIMATELY CATIPULT GOLD PRICES HIGHER.

To make these investments you need to be strategic and defensive. The basics of my strategy were outlined in the August 23rd weekly comment entitled "**Opportunity of a Lifetime.**"

If you are interested in looking at this idea specifically for your portfolio please feel free to email me or give me a call.

About the author: Nick Foglietta is a Vice President, Investment Advisor at RBC Wealth Management in Nanaimo, B.C., Canada. He has been managing money since 1988.