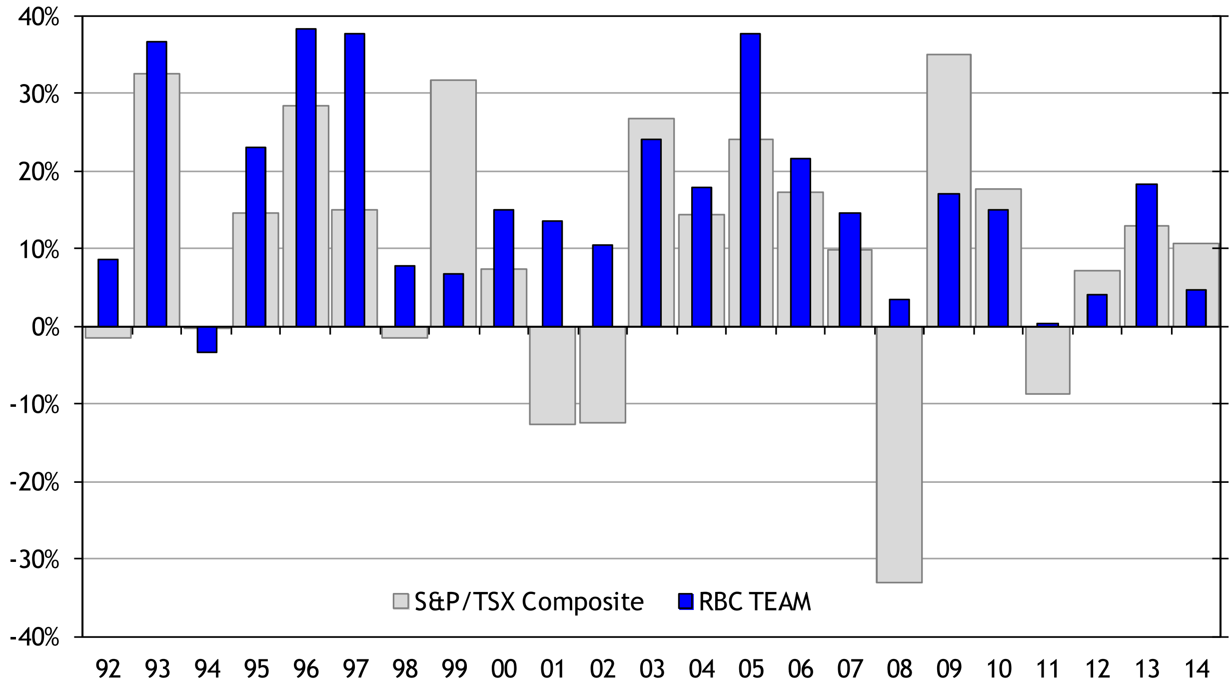
October 5th 2015

“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: 13,340
TSX 200 Day Moving Ave: 14,623
% Above/Below 200 Day Moving Ave: **8.55% Below**
Levels for change: 100% stocks - **TSX 15,421** and 100% fixed income – **TSX 13,953**

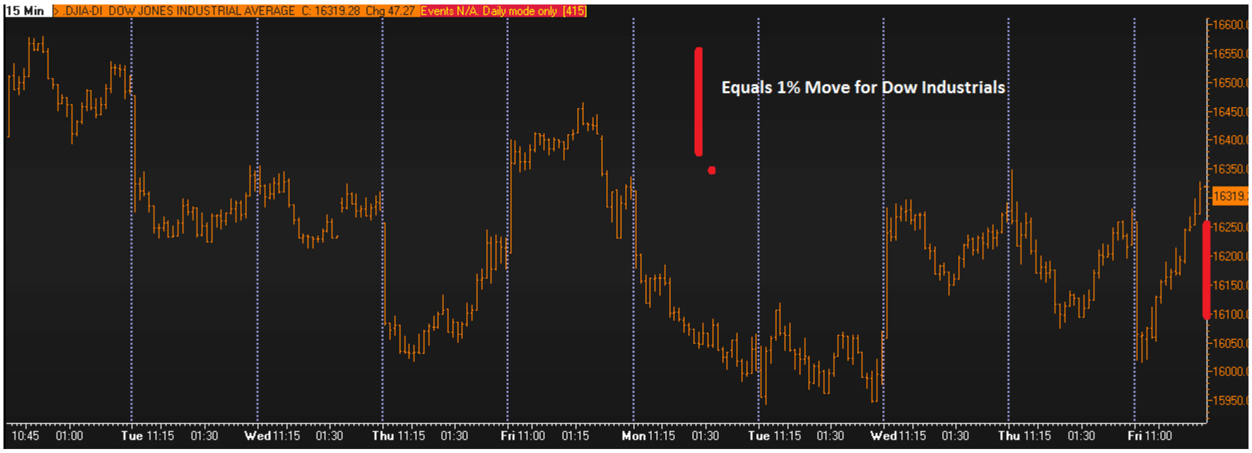
Weekly Quote

“Do not speak – unless it improves on silence.”

Ancient Proverb…and great advice I try to adhere to!

<u>"The Market without Memory!"</u>

Take a look at the last ten trading days for the Dow Industrials. I have marked a 1% move on the right hand scale using a thick red line. Look how many days move more than 1% during their trading session…also notice how the Dow often just changes direction at some given moment for no real reason.



The real point I want to make using the chart above is that it simply looks chaotic. Maybe even random. But the next chart shows the past three years of trading on the Dow Industrials. Here the trends are well defined. (Green is up, yellow is "flat", and red is down.)

What I think is really cool is how the TEAM model responded to this chart BEFORE we had the benefit of looking at it in hindsight. Remember, TEAM went from 100% in stocks at the end of June 2015, and then to 100% cash at the end of August.

That is exactly what TEAM was designed to do…**avoid the potential for the BIG mistake!**

There is no way to know if stocks are going to continue the downtrend started last summer. But the chart above visually suggests something has changed to make investors less risk tolerant.

If stocks stop falling and level out…TEAM will start repurchases. If stocks keep falling TEAM will stay in cash. Simple!

When markets get volatile, true (conservative) investors take some of their investments off the table and wait for better entry points to redeploy capital.

If you have questions about this process please don't hesitate to touch base with me.

"Cars and Bars"

The last of the regional MANUFACTURING numbers came in for August. They are all listed below:

Chicago PMI – 48.7 Milwaukee ISM – 39.4 Empire (-14.7) Philadelphia (-6.0) Richmond (-5.0) Dallas (-9.5) Kansas City (-8).

***For clarity the Purchasing Managers Index (PMI) and Institute of Supply Management (ISM) are a scale of 0 – 100. A number above 50 implies an expanding economy and a number below 50 is contracting.

***The other manufacturing indexes are simple…above 0 is expanding and below 0 is contracting.

Remember, these are manufacturing numbers. They are not influenced by how many bartenders and waitresses are working in the service economy. These numbers would also be much worse if it was not for the excellent rate of car sales. The auto sector is a bright spot in the US economy.

I cannot recall seeing all of the regional numbers in the US reading contraction at the same time except when the US economy is in recession. Take that for what it is worth…but it certainly lines up with the weak stock markets and commodity prices we have witnessed.

It also makes me believe the US is closer to announcing more Quantitative Easing than to announcing an interest rate hike!

The weak manufacturing numbers are represented in the rate of change for the broad S&P 500 earnings picture in the chart above as well.

But who knows what the Federal Reserve board members are looking at for data anymore? The FED spent the summer setting the entire world up for an interest rate hike in September. Then they decide to do nothing…

OK…I can live with that. But not even a week later, two of these FED-HEAD guys are giving speeches talking about raising interest rates again.

Really?

Hey, I just call 'em as I see 'em! But the FED is destroying any shreds of credibility they have left. And that has always been a major concern for me as an investor.

Let me ask you two questions:

1. What happens if the world stops believing the global central banks have the abilities to push up asset prices every time a decline comes around?
2. What happens if the next recession hits the US before the FED gets a chance to start raising interest rates?

Nobody can answer those two questions accurately…because neither situation has ever happened before.

Now both are in the realm of possibility.

For investors, who have a large part of their life savings exposed to stocks and bonds the answers to the questions above are going to have an incredible impact on the rest of our lives.

Look at what happened on Friday, October 2nd. A simply atrocious jobs number was printed in the U.S. The stock markets fell by about 1.5% on the number. Then, markets get the bright idea that the FED will have to start printing more money (QE) and they reverse finishing the day up nearly 2.0!

Folks, an awful jobs number given the place we are at in the economic cycle and the QE cycle is NOT GOOD NEWS! The "main street economy" is not recovering in the normal and proper way. Volatile asset prices are evidence such…

I encourage you to be patient and watch for opportunities in out of favour asset classes. It is hard to do when cash pays so little but it is important to keep your focus on the long term.

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.