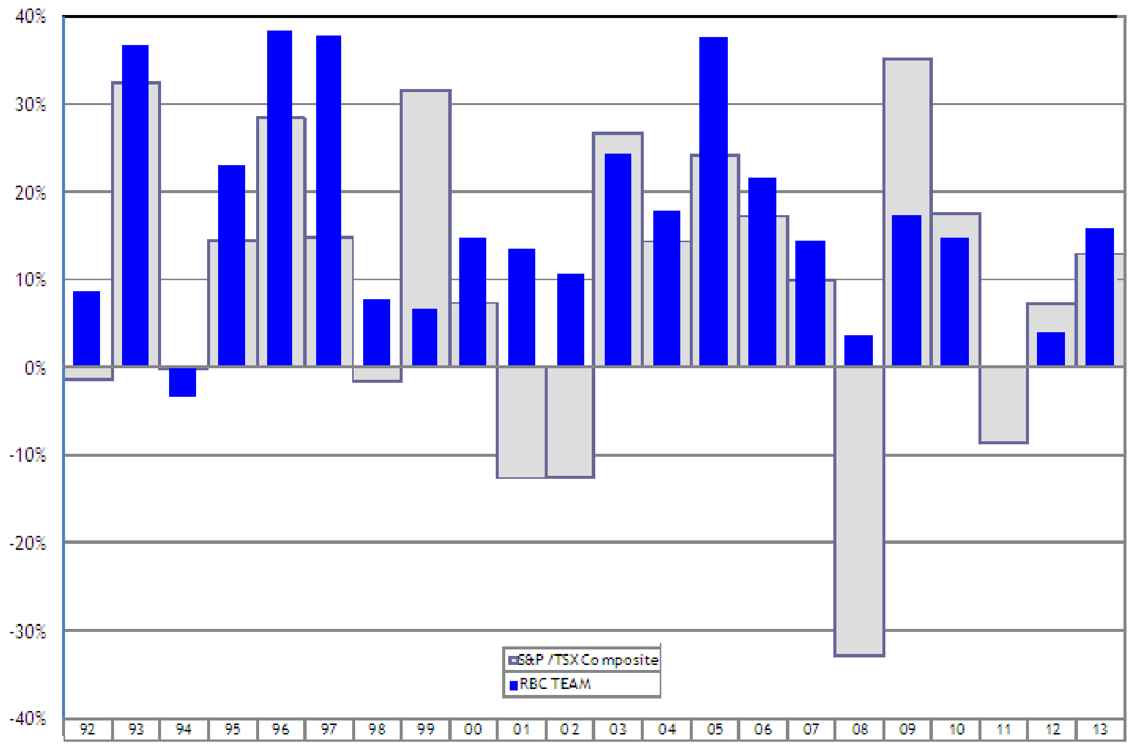
January 26th 2015

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: **50%** Equities/ **50%** Fixed Income
S&P/TSX 60 Closing Value: 14,780
TSX 200 Day Moving Ave: 14,825
% Above/Below 200 Day Moving Ave: **-0.03%**
Levels for change: 100% stocks - **TSX 15,566** and 100% fixed income – **TSX 14,086**

Weekly Quote

"The most important day in the European Central Bank's history has arrived!"

- Citigroup, January 22nd 2015

Three Very Important Topics

- Canada cuts key lending rate from 1.00% to 0.75%
- European Central Bank (ECB) applies Quantitative Easing (QE)
- Greece votes for "soft-Communists" to lead them in Euro-battle

Each one of these topics requires an entire editorial devoted only to its discussion. I'm afraid I just don't have the time or space to make that happen. Let's take a brief look at each topic and try to draw some investment conclusions from the information.

The **Canadian rate cut** is "***equivalent to a cheap parlor trick to try and create some inflation***". That quote was used by one well known economist. My comment is a little less harsh…what else is the Bank of Canada supposed to do?

Devaluing one's currency is never a great long term choice. The benefits a weaker currency delivers to Canadian companies that export into the US is very quickly offset by the rise in imports…and in Canada that always means food!

The asset in the Canadian government is most worried about is real estate. For three years running Canada has been voted the most expensive G7 real estate market relative to incomes. In 2014, Canada took it to another level when we were voted the second most expensive real estate market in the world behind Hong Kong. (Again, relative to income.)

It is not yet readily apparent if the BOC rate cut is going to have any lasting effect. Often, monetary *cheap parlor tricks* are pretty transparent and, while shocking and amusing, not particularly enticing to large scale investors. A rally back in oil prices would offer a better platform for stability.

So, for what it is worth, Canada moves forward with an eighty cent (to the US dollar) exchange rate. Let's see what happens next.

<u>European QE</u>

The European Central Bank (ECB) jumped into the *QE abyss* with both feet this week. Again, what choice did they really have? The world expected such a response…no, the world DEMANDED it!

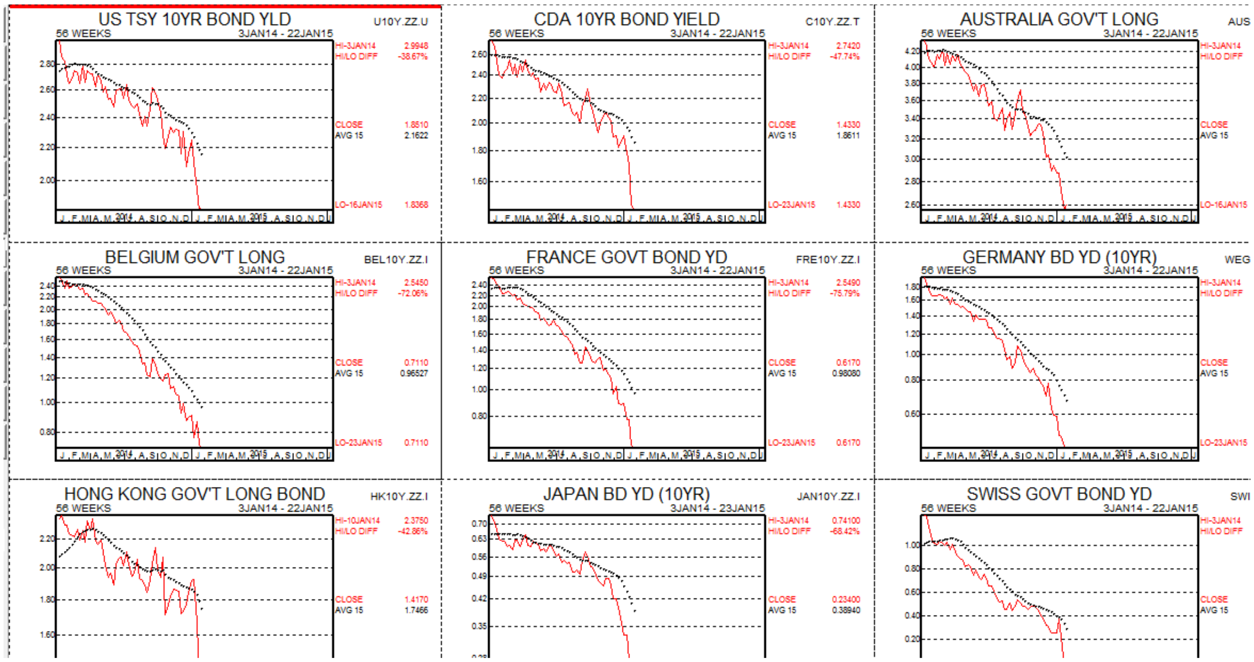
But this is where I like to step back and employ a reality check. Is this really going to help?

I am sure you will notice a similarity to the chart of the Canadian/US dollar exchange rate shown above…the Eurozone needs to create "inflation" somehow. And a sharp devaluation appears to be the last straw choice.

The goal of QE is to **CREATE INFLATION**. The process is to use the "freshly printed money" and go out and buy government bonds to drive down interest rates which are supposed to drive the "animal spirits" of consumers to spend.

Can the ECB claim this accepted reason for employing QE? I don't think they can.

The 9 charts below show the interest rates on 10 year bonds in a broad selection of the world. Hmmm…is there a theme there?



(Sorry about cutting off the bottom of the charts…it would not fit in my screen shot…but I think you get the picture!)

Let's look at the shorter interest rates in a number of Euro nations out to 5 years and you decide whether they need to push interest rates lower:

Country	**1 month**	**1 year**	**5 year**
Austria	-.124%	-.133%	-.003%
Belguim	-.100%	-.130%	.086%
Denmark	-.63%	-.28%	-.093%
France	-.082%	-.13%	.006%
Germany	-.145%	-.168%	-.020%
Italy	.088%	.20%	.83%
Netherlands	-.168%	-.010%	.032%
Spain	.027%	.125%	.758%
Switzerland	-4.00%	-1.52%	-.87%
Greece	4.41%	3.65%	9.23%
Russia	17.50%	15.25%	14.60%

What an interesting set of data? There is so much we could discuss here but let's stay on topic. **What good is driving down interest rates going to do in any of the "solid" countries listed above when the rates of return are already negative?**

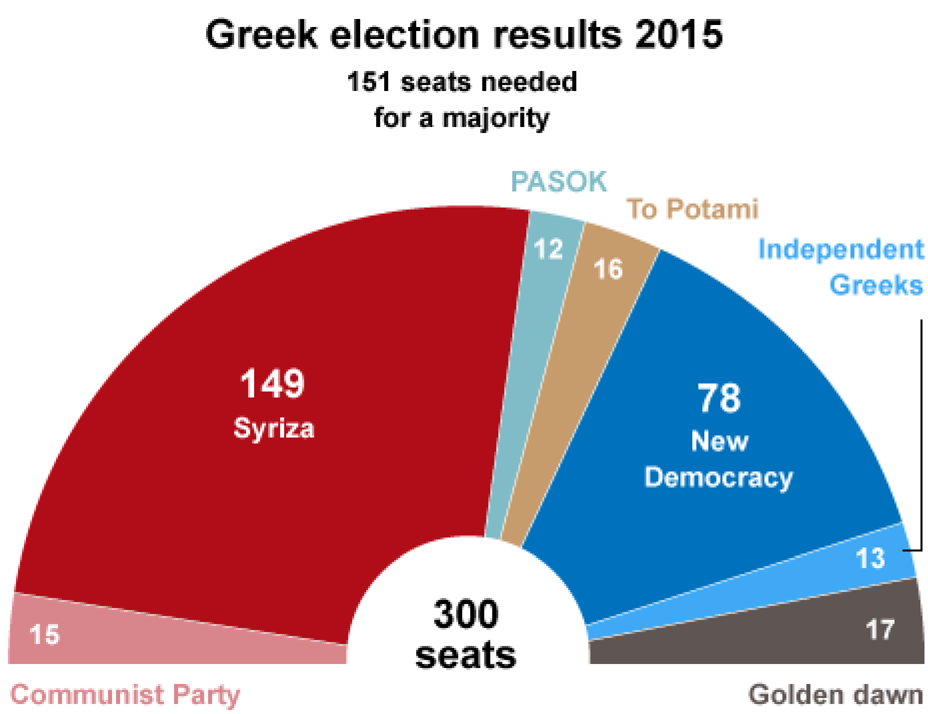
Obviously, there is another purpose to the QE. A purpose that is not stated in the rhetoric we hear from the ECB!

For now, I will leave the ECB decision to employ QE and give it some more time to "percolate" through the global financial system. Stock markets have continued to run higher…and bond yields have stayed about the same. I guess the ECB would consider that a victory.

Hey, it is only day two in the battle…but so far so good!

Greek Election

The polls were absolutely right on the money in forecasting what would happen in the Greek election. Alexis Tsipras, and the Syriza party won 149 of 300 seats in parliament.



Let me add a quick review of Syriza's pre-election promises.

- Free electricity for Greeks without
- A roof over all Greek heads
- A personal debt moratorium of 30%. (This means a bank cannot take more than 30% of a family's gross income for loan payments.)
- Food stamps for children
- A "complete" renegotiation of Greek debts with the European Union.
- The end to "Troika" overview in Greece.

With the votes counted and the results in Syriza will be able to move forward trying to fulfill these promises. **Obviously, these promises are not easily fulfilled when you have no money to spend**! One economist stated below:

"We believe that Europe cannot and will not spare Tsipras the need to accept reality: you cannot spend money you don't have… you cannot renege on your contract with creditors and expect them to grant you a new big loan," Holger Schmieding, chief economist at Berenberg Bank, said

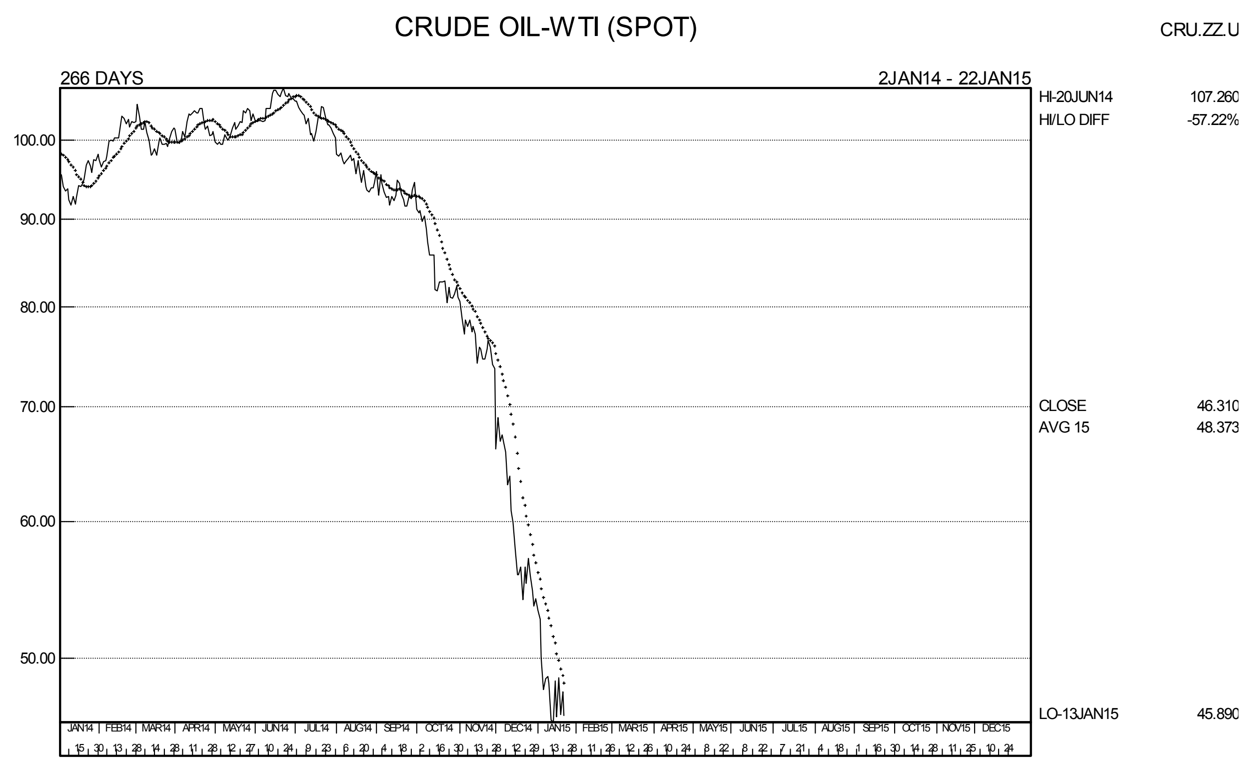
So the battle lines are drawn and Europe's future will likely have some path that leads through Greece! Already, Ireland is calling for a "Debt Conference" where Portugal, Ireland, Greece, Italy, and Spain can "negotiate" a better deal to stay in the Euro.

Stay tuned…these are early, but interesting days in this Euro chapter.

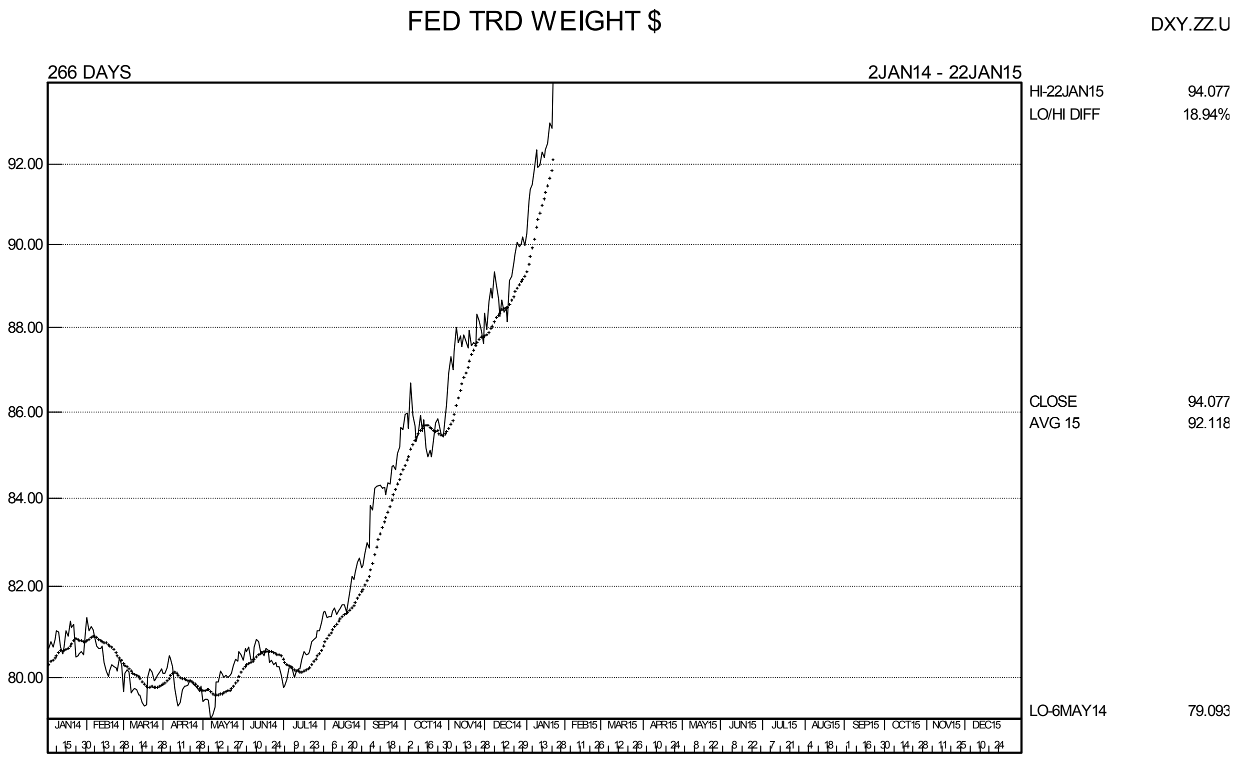
Crude Oil and the US dollar Index

To wrap my weekly I want to look at the two charts I have been relating to consistently for nearly six months now.

Crude oil appears to be trying to put in a "bottom". This chart definitely catches my attention and those who consider themselves "aggressive investors" may want to start accumulating "targets" in the oil sector.



The chart of the US dollar index shows no such pattern…it is actually accelerating to the upside! This chart keeps me very cautious about all markets…including stocks!



Feel free to contact me with any questions you may have about this report.

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.