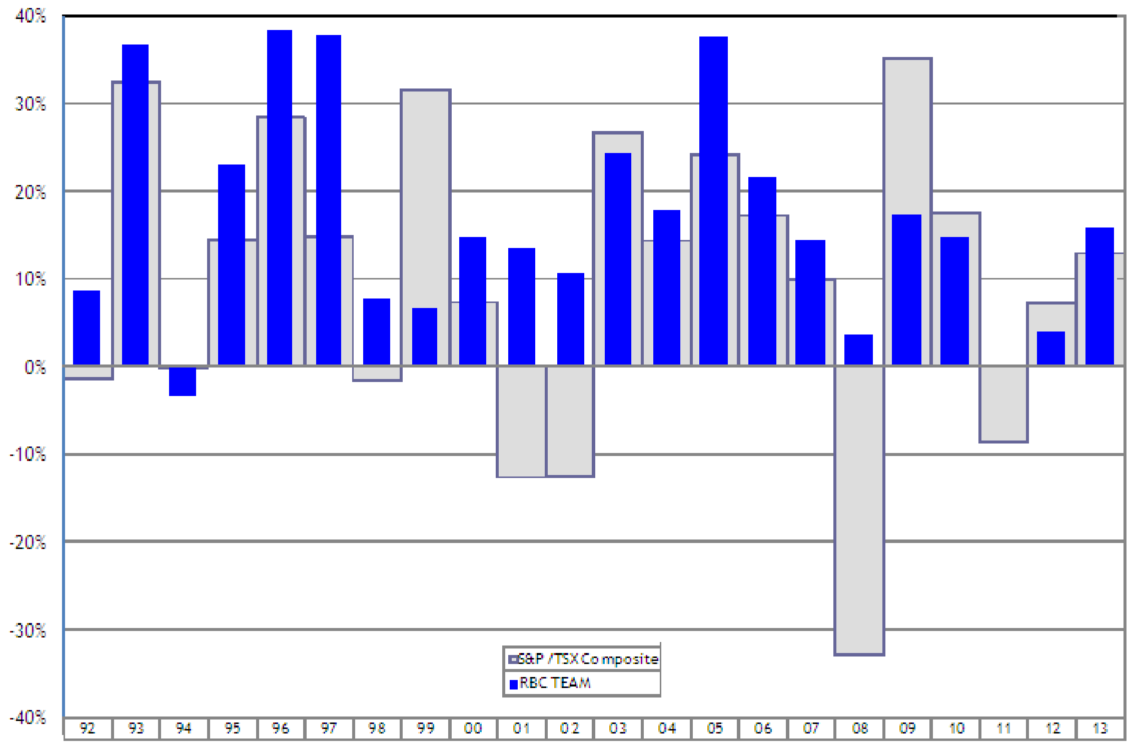
November 25th, 2014

# *"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: 15,102
TSX 200 Day Moving Ave: 14,783
% Above/Below 200 Day Moving Ave: **2.15%**
Levels for change: 100% stocks - **TSX 15,522** and 100% fixed income – **TSX 14,043**

*Weekly Quote*

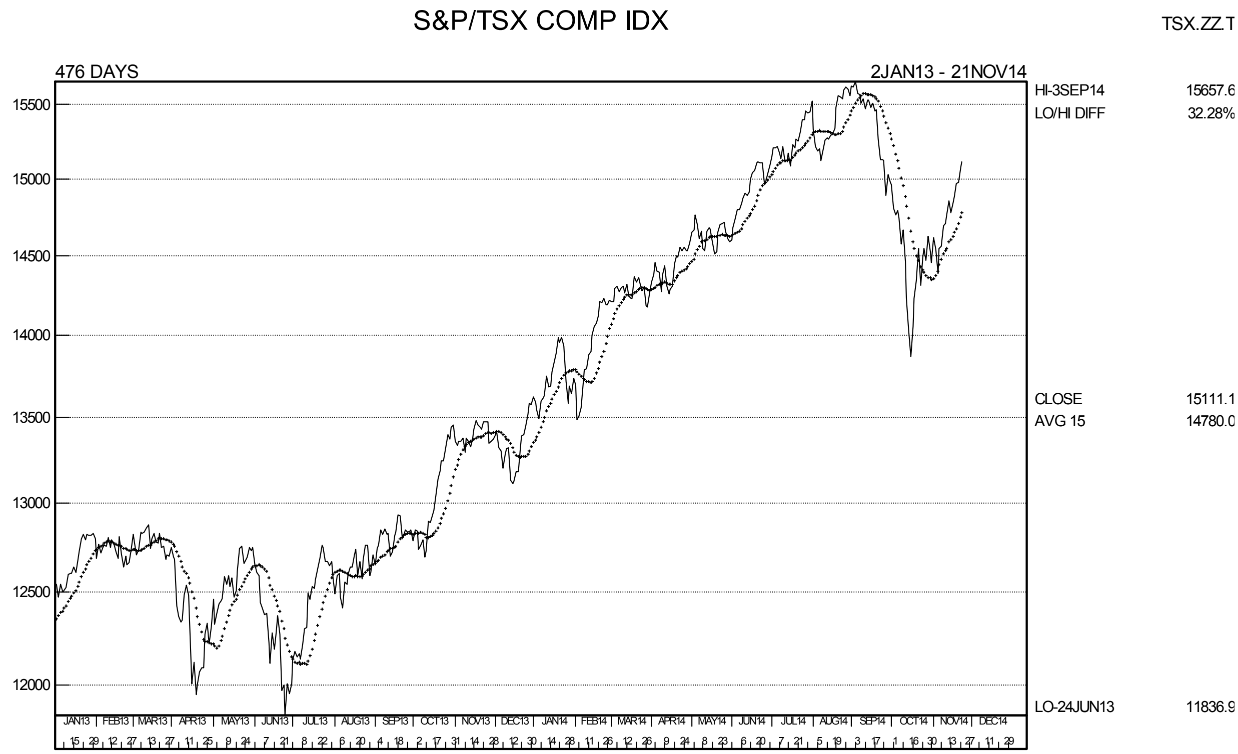
"*I feel better now that the (US) Federal Reserve is investigating itself*"

Jim Grant, *The Interest Rate Observer* newsletter, November 21, 2014

*Stock Market Updates (Oil and US dollar included)*

Canadian stocks finally broke free of the 200 day moving average and took a nicely BULLISH turn. **The key to this move was the outperformance of <u>oil related names</u>**.

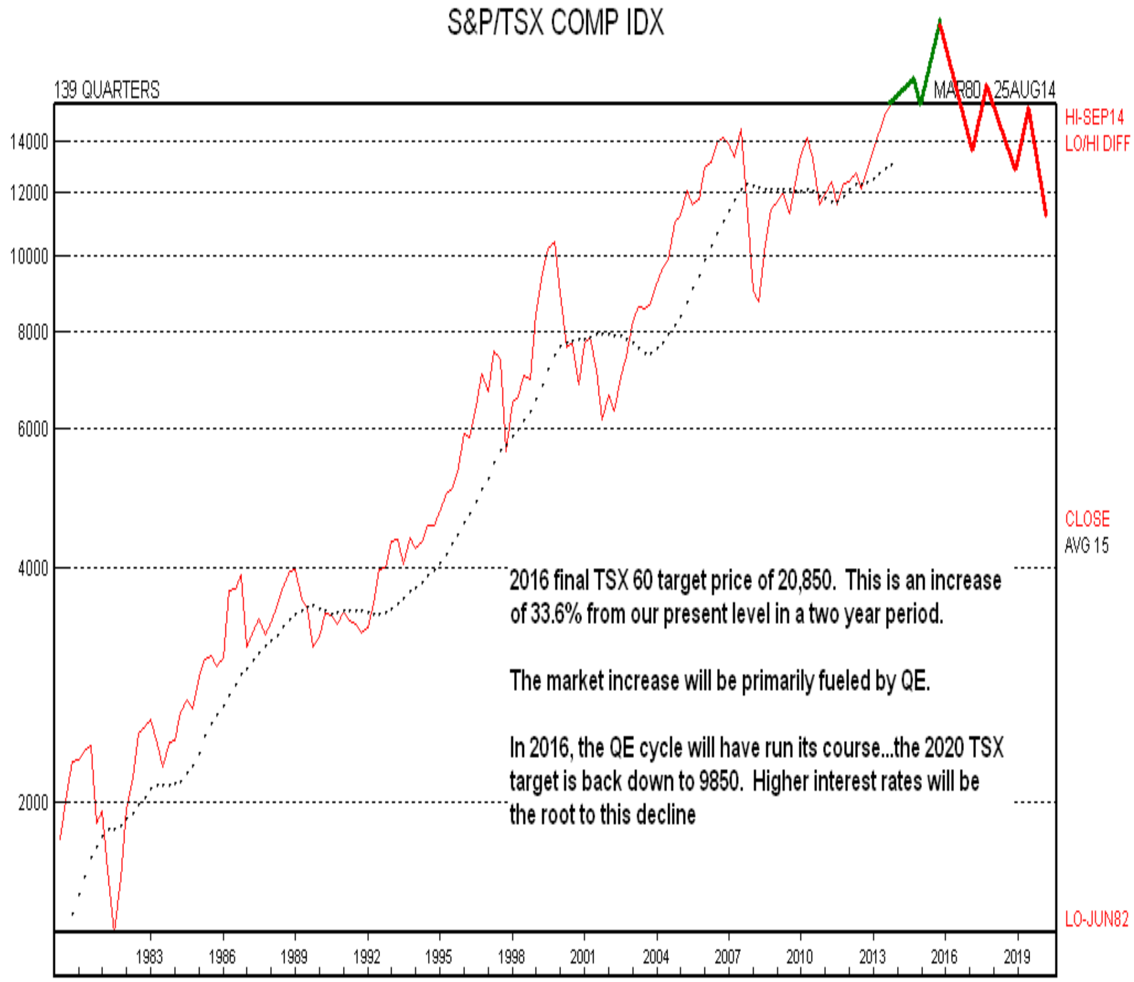
Generally, the "glide path" for stocks looks higher. It will be interesting to see if the TSX can actually make new highs before year end.




The old story that "***weak economic data will force central banks to print more money and will push asset prices higher***" was shouted from the roof tops this past week. China's economic growth was weak, Europe's worse, and by Friday the Chinese announced their first interest rate cut since 2012!

Put together, it was like rocket fuel for stocks.

I guess this brings to question whether the coming months plays out like a "*topping market chart*" or do we "*reintroduce the chart from my weekly of September 2nd 2014*" with upside targets of 20,850 by the end of 2016 for the TSX? (Chart included below).



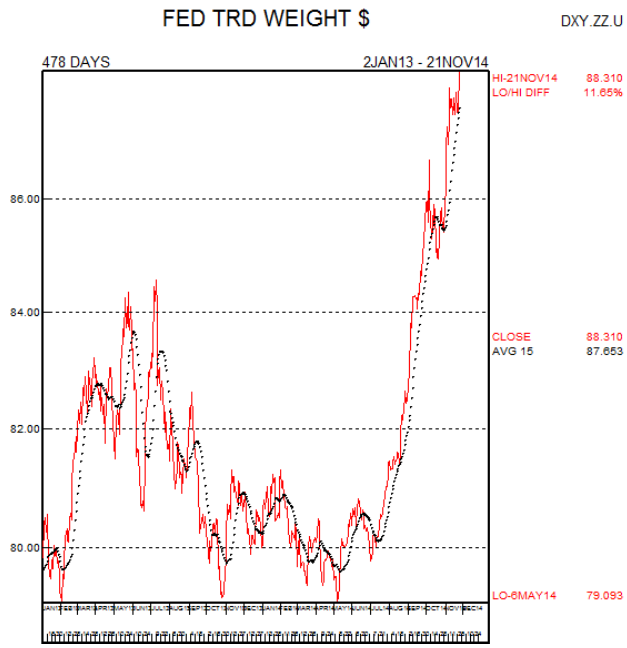

Remember, the "Gann target" for this chart is **20,850 for the TSX by the end of 2016**.

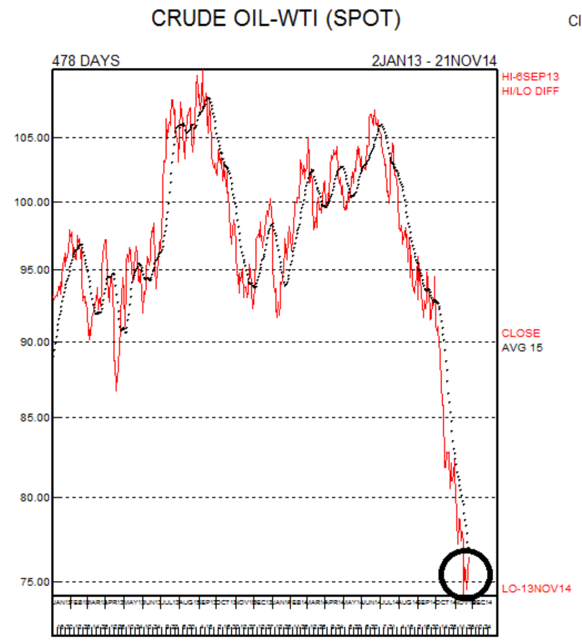
It takes a new high for the TSX to re-initiate this target…and we would need to see Oil prices recover to get there…we will see.

The overall theme is simple: **Global Quantitative Easing is on the rise, even though it has come to an end in the US. As long as interest rates around the world hover near the zero bound, asset prices should maintain their upward trajectory**.

Japan is going to continue to export "deflation" around the world and central banks in other countries will have to battle that "inherited" deflation with QE policies of their own.

Again this week, let's take a quick peek at my two favourite charts: Oil and the US dollar index.




Maybe…just maybe…crude oil is turning the corner and getting ready to bounce. (See circle in chart above). But the US dollar chart still looks relentlessly higher. Oil will not bounce much with the US dollar making new highs!

Bottom line: **TEAM is still neutral…technically, the Canadian market is getting more BULLISH but it is not a clear signal yet**.

*"Buy Japan"*

You gotta love the crazy logic of today's financial world. The worse the financial conditions are in a specific area…the more reason to buy the assets of that region because the central bank will be supporting the price levels for investors.

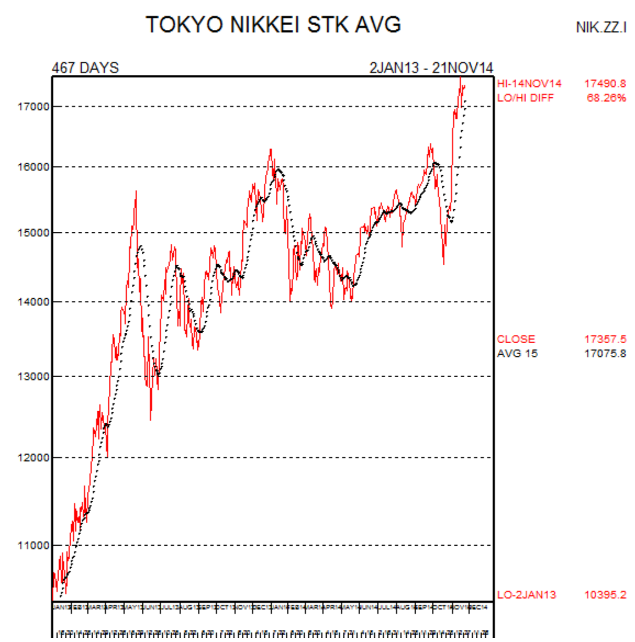
Given this theme…there is no place crazier than Japan.

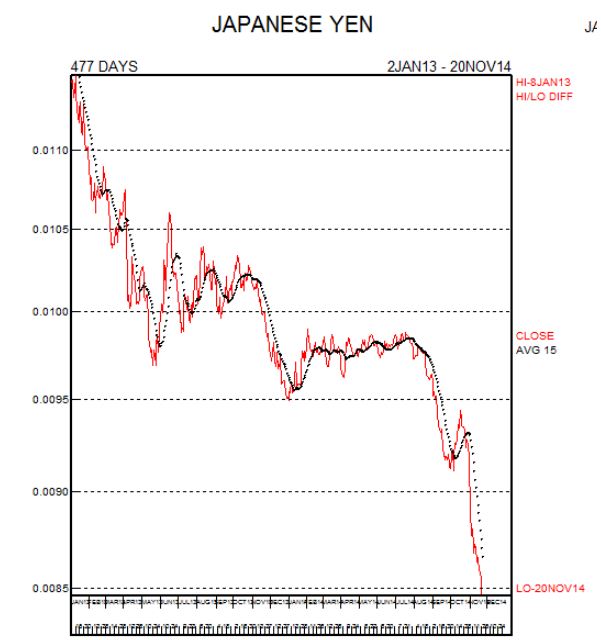
As stated a few times during the past couple of weeks…**Japan has set upon a course to destroy its currency (Yen) by printing more money. Japan has stated it is willing to buy up its' entire sovereign bond market to support bond and stock prices!**

So what's not to like about that?

But there is one huge caveat to this investment. **You must be able to effectively eliminate the anticipated currency decline to make any profit as a foreign investor.**

Looking ahead, it is possible that the Japanese Yen may devalue by another 30% by the end of 2015. If one believes the value of, for example, Toyota Motors will be approximately the same a year from now, then you can own the company and "hedge" the currency decline and make a profit on the currency change alone.




I believe this investment is suitable for those with an interest in the concept of profiting from a change in currency markets.

If you would like some more information on making an investment in Japan that excludes the currency risk…please give me a call.

*"Confession"*

The past 7 years have been challenging for me. I keep hoping that our global leaders will somehow try to rebalance the economic world back to a place where borrowers and lenders are treated fairly and evenly. **Where market forces (rather than central banks) dictate what the level of interest is to be paid on a loan or deposit**. Where money has some real value again….

This hope has been severely misplaced up to this point. And I have spent far too much time bothering about the great level of inequity present in our world today!

This past week I read the third quarter letter from Hugh Hendry (Eclectica Fund) in the UK. I must admit, in a few of the opening paragraphs he set straight a number of the thoughts I have been mulling over. I include these paragraphs below:

*The last time I was really angry was late 2010/11. Where the market, in its wisdom, had yet to configure the changing economic landscape and was still perceiving that the economy in Europe and elsewhere was recovering.*

*I thought that was just insane, that we weren't capturing the kind of deflationary zeitgeist that was approaching.*

*I have to say when I look back in the last three years it feels as if the sun only rose each day to humiliate me after that point.*

*But the mea culpa, that I think is very necessary I that* ***I found myself unable to forgive the Federal Reserve and other central banks for, if you will, bailing out Wall Street from the excess of 2008.***

*I just couldn't get over it. I luxuriated in the polemics of Marc Faber and James Grant and Nassim Taleb, in our own country (UK) Albert Edwards, et al. I luxuriated as they ranted and it was fine for them to rant. But I am charged with the responsibility of making money and not being some moral guardian and certainly not a moral curmudgeon. I had to get over that….*

*So I really feel very, very isolated from their view of the world. Arguably, we're talking about the here and now and the future's a long time. But in the future, I'm sure our paths can converge once more."* – Hugh Hendry, November 2014

Honestly, I have never felt as frustrated as Mr. Hendry…but I absolutely concur with his processing of the situation.

**It has been hard to understand the absolute immoral nature of our central banks and how they have chosen the benefit of the wealthy few over the middle class masses and the poor.**

**QE for the first year or two after the crisis began…MAYBE…but nearly seven years later? Really?**

**I should not have been surprised…and ultimately, I have to "play the cards we are dealt"**.

Obviously, many of you share my feelings on these issues…and many of you don't.

My goal is always to view the markets from a healthy perspective…but never with "rose coloured glasses on! I will continue to work hard and stay abreast of the global financial developments the best I can!

Your attention is much appreciated…your comments are always welcome!

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.

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