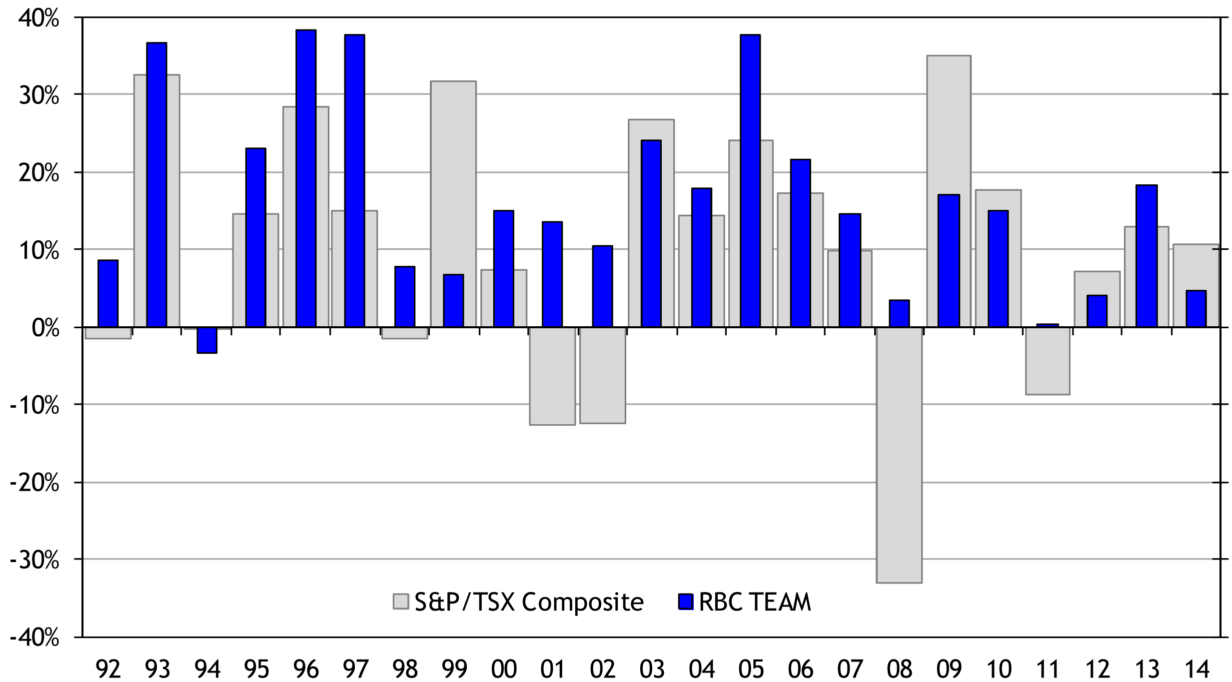
December 7th 2015

"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: 13,359
TSX 200 Day Moving Ave: 14,420
% Above/Below 200 Day Moving Ave: **7.18% Below**
Levels for change: 100% stocks - **TSX 15,141** and 100% fixed income – **TSX 13,700**

<u>Weekly Quote</u>

"You are free to do whatever the government tells you to do."

Bill Hicks, RIP, American stand-up comedian, social critic, and satirist.

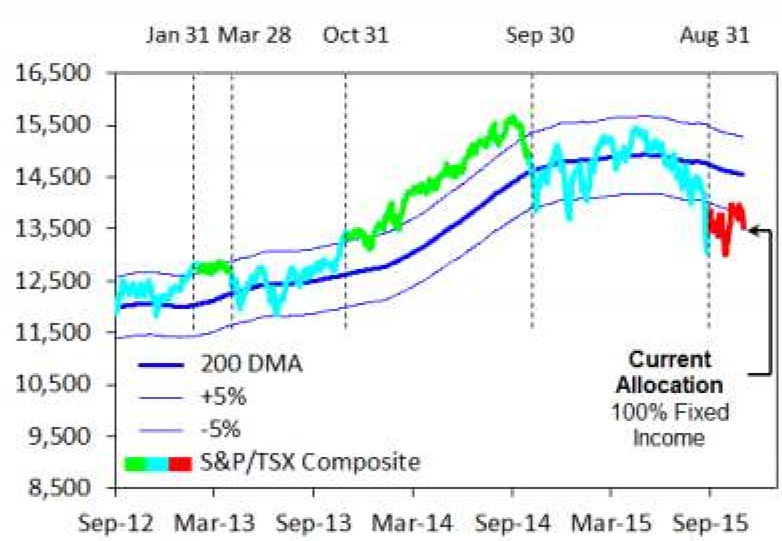
Tactical Approach Continues to Make Sense and Yield Positive Relative Returns

Since August the investment world has seen a growing number of professional investors give up on "trading" these markets. Hedge funds have closed and many seasoned investors have "retired in frustration."

The root of their frustration comes because the day to day swings are often violent and have no grounding in the news. On a certain day, certain news announcement yields a positive market response…a week later the same news is viewed negatively.

Doug Kass of Seabreeze Partners often quips, "The markets have no memory from one day to the next." On the surface that seems fair enough…

But a tactical approach has allowed investor to both outperform the markets AND sleep at night!



Remember, the green line represents the TEAM model when it is 100% in the stock market, blue is ½ in the market and ½ out, red is 100% cash.

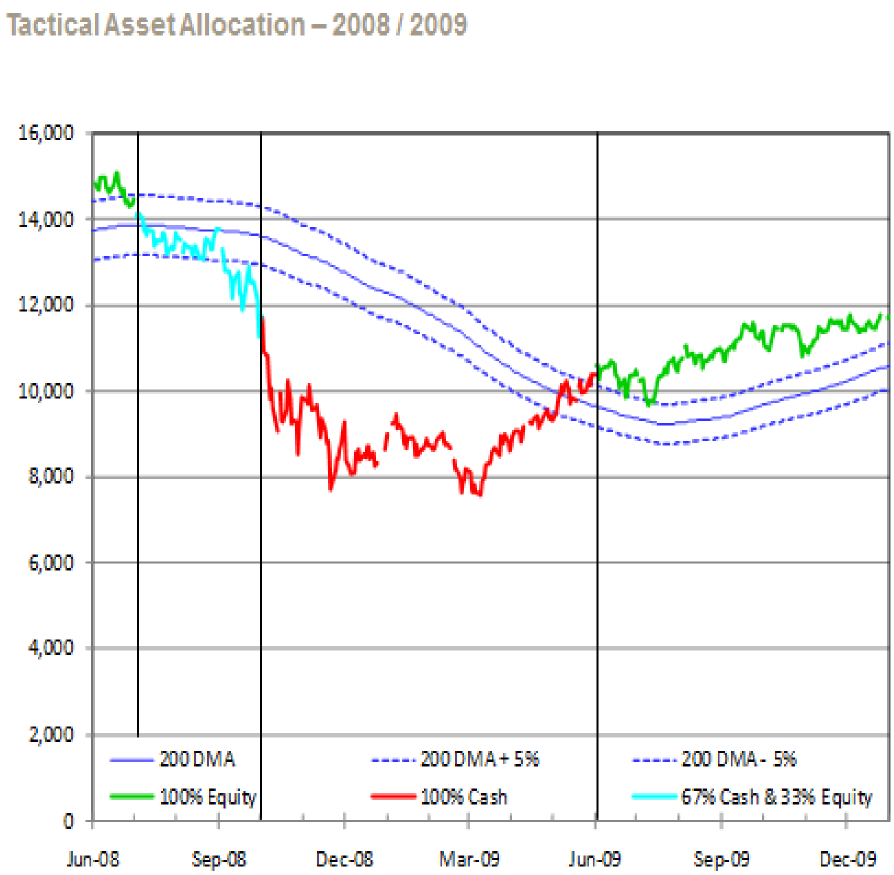
The philosophy of TEAM has always focused on the goal of "***participating in any uptrend in the stock market that lasts more than 6 months and, on the other hand, only participating in 20% of a decline lasting 6 months or more.***"

It is important to understand that "not losing when the stock markets are declining does not necessarily make the tactical investor much money while they wait.

The vision one must have is that all of the ground the stock market loses in a BEAR market will, someday, be recovered in the next BULL market.

As long as the investor believes that will happen, then tactically we can take the position that every point that the market declines is sort of like a point we will put in our pocket later when the eventual recovery commences.

Look at the following chart of 2008/2009 to see what I mean.



Throughout the 2008 crash, this strategy did a reasonably good job of timing the market.

I would have avoided ~5,200 points of the decline, while missing out on only ~2,000 points of the subsequent recovery.

Hey, the process is not perfect. But it works pretty well!

I always like to point out that another advantage of tactical asset allocations is that you will never buy back into a declining market. If the 200 day moving average never catches up to the index…we will never buy back in again!

For many of you, this is all just a bit of a review of how the TEAM Model works to avoid large declines in the stock market.

If this is new information for you and you are feeling frustrated with you portfolio and want to talk about solutions to your frustration please feel free to talk.

Raising US Interest Rates

It appears come "hell or high water" Janet Yellen is ready to raise the interest rate 0.25% December 16th after nearly 8 years at zero!!!

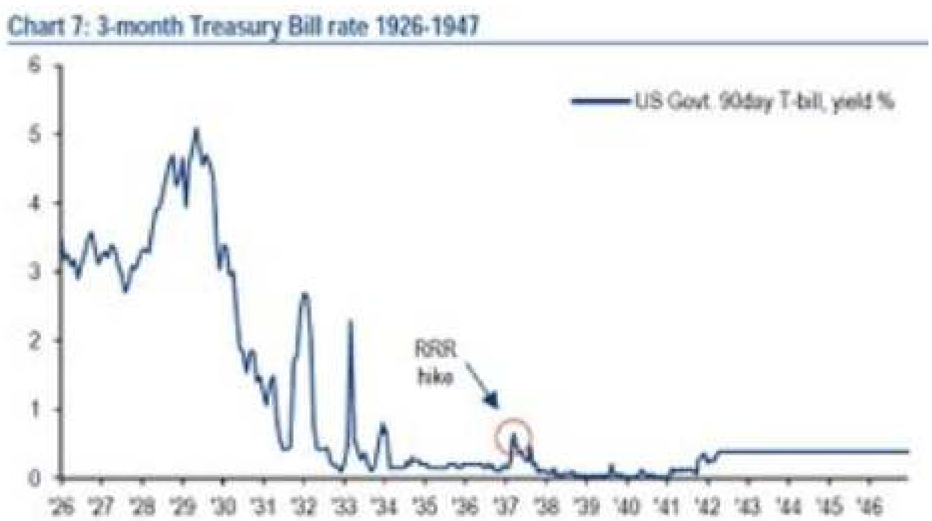
I know, I know, you have heard this before. Let's see…December 2014, March 2015, for sure June 2015, absolutely, unequivocally September 2015….

So why do I think December is different?

Because the FED wants to change the conversation. Janet Yellen does not want to debate when the FED is going to start raising interest rates anymore. What she wants the discussion to center around is **how often is the FED going to keep raising interest rates.**

My guess is the FED raises ¼ of 1 % in December…and then only raises one more time in 2016.

I draw your attention to the chart below. It shows the 3 month T-Bill interest rate in the United States from 1926 to 1946.



What I want you to notice is the little "bump" in 1937. That is where the US FED of that era thought it could raise interest rates in the middle of the Great Depression. Look at the following 4 years and what happened to the T-Bill rate.

The US 0.25% interest rate increase makes no impact on the general public. It has little impact on the US bond market. It makes a marginal impact on banks dealing with corporate clients.

The 0.25% interest rate increase makes a large impact in the currency markets and a massive impact on bank dealings back with the US Federal Reserve!

QE is a slow, drawn out process but it is getting interesting. The question is, **will the interest rate increase of December 2015 play out like the interest rate increase in 1937?**   Hmmm? Stay tuned to find out!

<u>How about the Bank of Canada?</u>

So what do the financial wizards at the Bank of Canada have planned when it comes to their interest rate policy plan? Well, a lot will depend upon what the financial wizards at the US FED come up with, but at least we know they didn't raise interest rates last week.

The Bank of Canada kept its interest rate policy at 0.50%. Below are the "our thoughts" of some of our RBC DS marketing team: (emphasis is theirs)

Our Thoughts: *The expectation that interest rates are likely to stay lower for longer in Canada remains* ***unchanged following today's statement****. The Bank is expected to take its time before tightening its monetary policy position.* ***The forward market is pricing in no change in the overnight rate for the next 12 months*** *and a total of 2 rate hikes over the next three years. We believe that the outlook for Canadian rates will likely be driven by growth in Canada and the US, exports, and resource sector performance. Capital spending plans announced by energy companies in the coming weeks could be an important source of direction for the BoC as it moves into 2016.*

Wow, what a shocker…no interest rate increase!

When it comes to all of this central bank policy stuff I leave you with a single thought: **if the central banks are still stuck at zero percent nearly 8 years after the recession of 2008 did their policies ever really solve our economic problems?**

<u>Australia Housing Market</u>

Below is a graphic and note about the Australia housing market. Why do I care about the Australian housing market? Glad you asked…

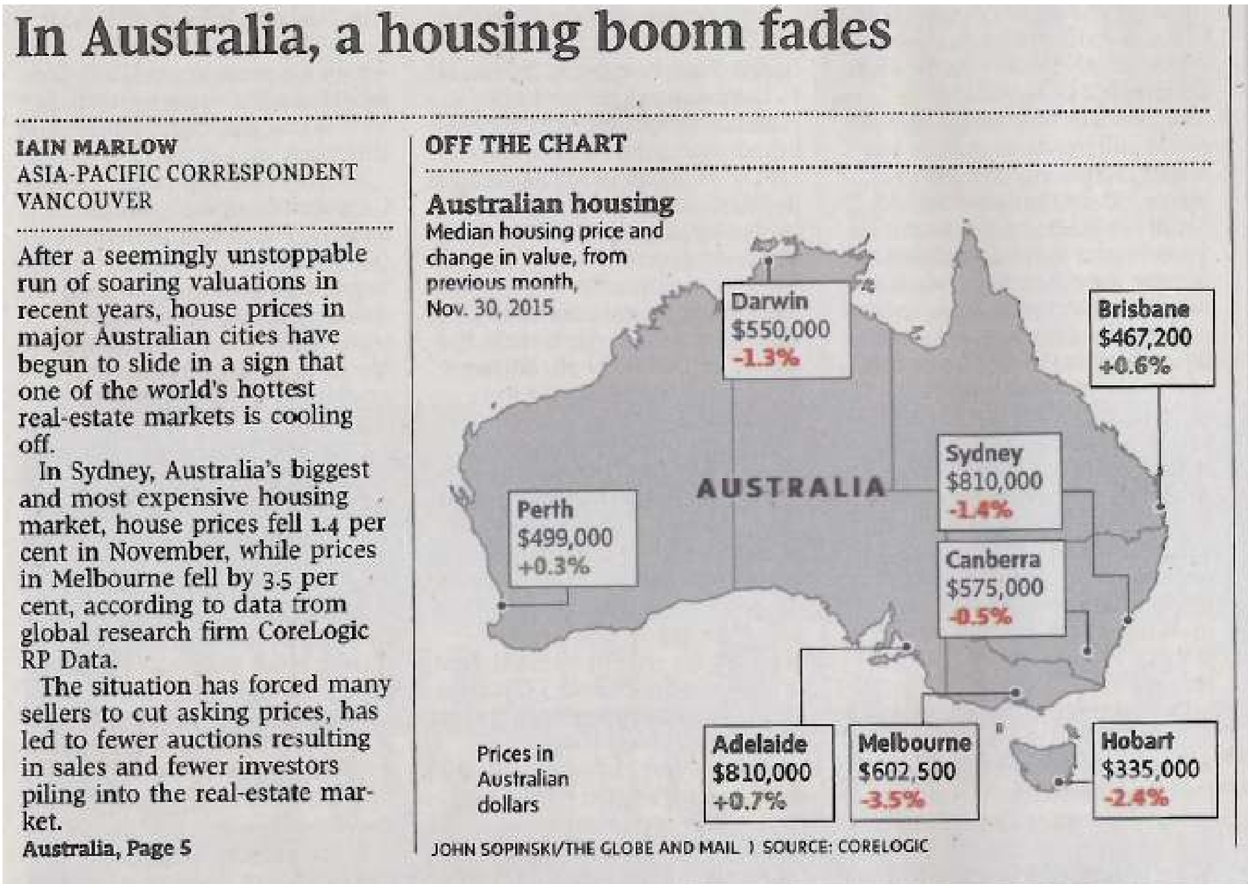
Remember, Canada shares a number of economic similarities with Australia. Two that I think are important are:

1. Both are "resource based" economies.
2. Both real estate markets are heavily influenced by Asian (Chinese) buying.

Back in May 2015, Australia moved to co-operate with the Chinese authorities trying to crack down on funds flowing out of China. The rule the Chinese are trying to implement is the restriction of more than $50,000 US out of their country.

The Australian banking system is co-operating with China on this initiative making it tougher for Chinese residents to move money there to buy real estate…Canada has not yet made an effort to comply as far as I know.

That said, look at what has taken place in the Australian real estate market since the restrictions were place on Chinese funds.



In Australia, a housing boom fades

IAIN MARLOW
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VANCOUVER

After a seemingly unstoppable run of soaring valuations in recent years, house prices in major Australian cities have begun to slide in a sign that one of the world's hottest real-estate markets is cooling off.

In Sydney, Australia's biggest and most expensive housing market, house prices fell 1.4 per cent in November, while prices in Melbourne fell by 3.5 per cent, according to data from global research firm CoreLogic RP Data.

The situation has forced many sellers to cut asking prices, has led to fewer auctions resulting in sales and fewer investors piling into the real-estate market.

Australia, Page 5

OFF THE CHART

Australian housing
Median housing price and change in value, from previous month, Nov. 30, 2015

JOHN SOPINSKI/THE GLOBE AND MAIL) SOURCE: CORELOGIC

If our leaders are still wondering if Asian buying has a significant affect in our B.C. real estate market…this might be another little clue they could look at!

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.