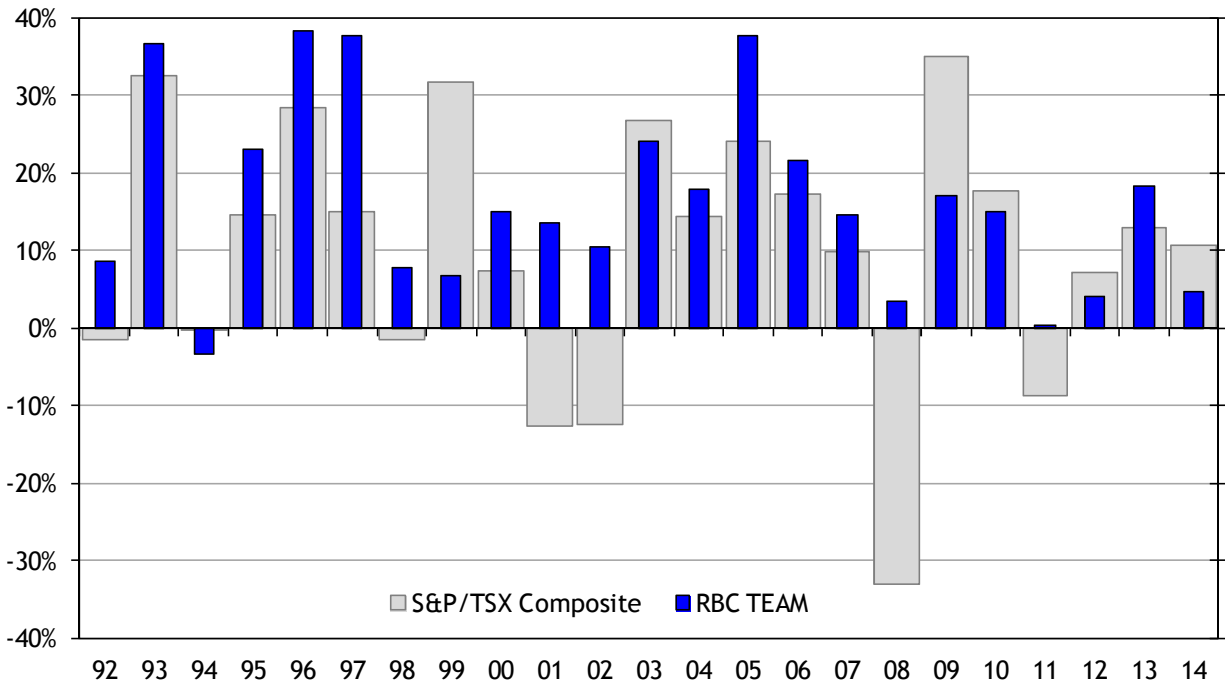


November 2nd 2015

“Won2One” with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: **0% Equities/ 100% Fixed Income**
S&P/TSX 60 Closing Value: 13,529
TSX 200 Day Moving Ave: 14,553
% Above/Below 200 Day Moving Ave: **7.23% Below**
Levels for change: 100% stocks - **TSX 15,315** and 100% fixed income – **TSX 13,825**

Weekly Quote

“I have the perfect way to pay off Canada’s debt...immediately lower the interest rate to negative (-25%) and the debt will be paid off in 4 years! Now, we just need to find investors who will hold these bonds?”

Nick Foglietta, free thinking on Oct 29th 2015

Canadian TEAM Model Remains in Cash

The TSX needed to close above 13,825 to trigger a move back to 50% stocks and 50% cash. Since the TSX closed at 13,529 the TEAM model remains 100% cash. TEAM has been in cash since September 1st 2015 when it sold at the 13,809 level.

(Remember, it sold the first 50% of its stocks in June when the TSX was at the 14,911 level.

When we look at the 1 year chart of the TSX below you can see it has really struggled to rally since the August lows.



November marks the beginning of what is supposed to be the “*BULLISH half of the year*” based upon historical trends. I don’t really put much faith in those types of cycles any longer.

If global central banks keep doing Quantitative Easing, Zero/Negative Interest Rates and outright stock purchases (Japan and China), then markets will not go down in the near future. If the FED keeps signalling for a rise in FED Funds interest rate at the December meeting, stocks won’t go up much either.

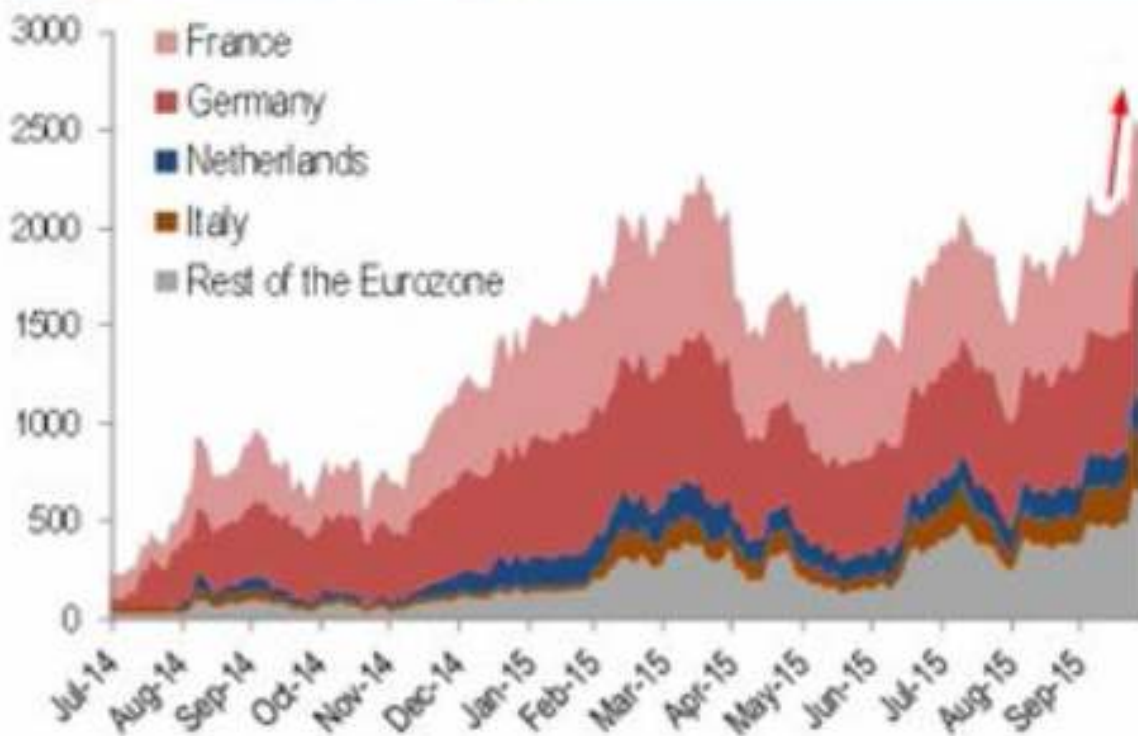
Don’t overthink this...stay with our discipline.

Preferred Shares Continue to Interest Me

Early in 2015 I wrote an editorial about the negative interest rates creeping into bond markets around the world. (A negative interest rate is a bond investment that you have to pay the issuer to own.)

Well, as of October 27th 2015, the world now has the greatest Euro denominated amount of bonds with negative yields in history. That total = 2.7 trillion Euros!

Chart 2: New highs in negative-yielding assets in the Eurozone after the ECB's dovishness last week (€bn)



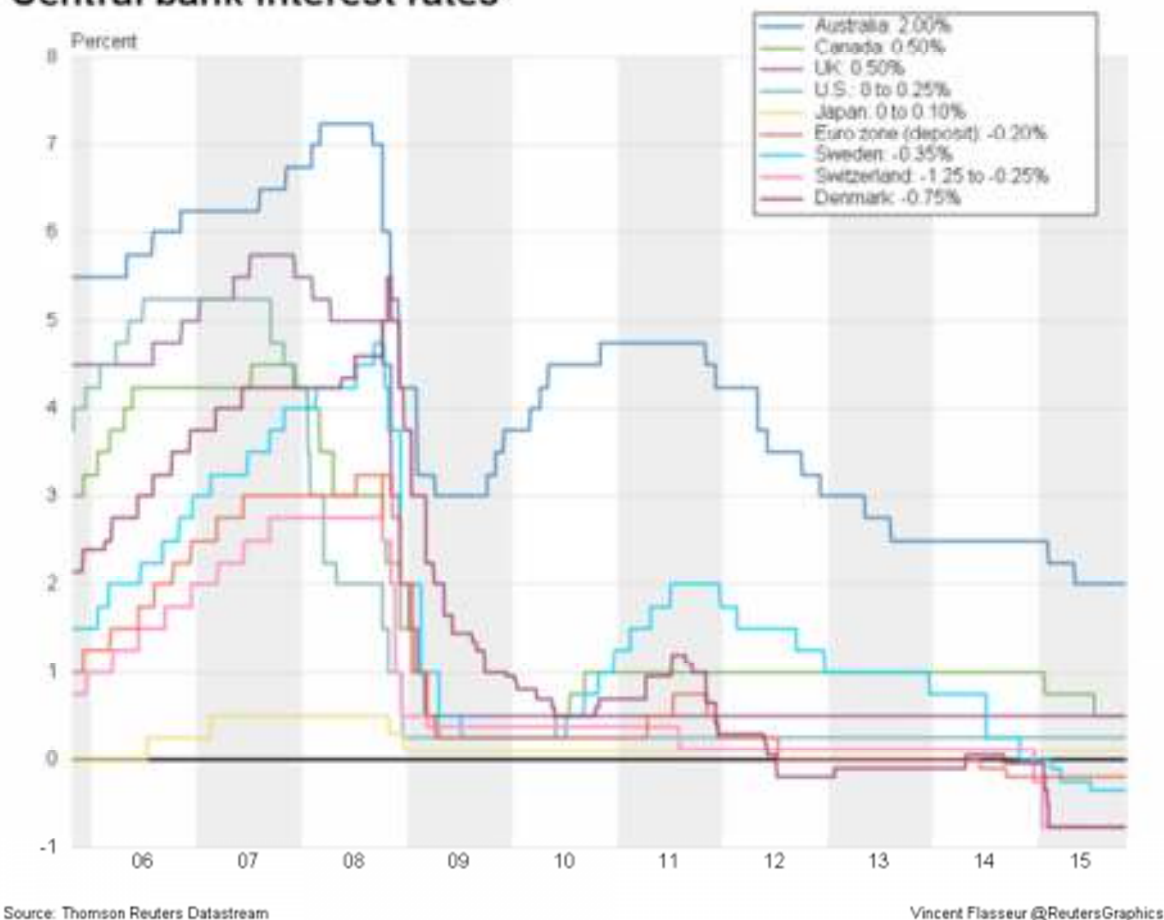
Source: Bloomberg, BofA Merrill Lynch Global Research, Bloomberg.

Globally, the number of bonds with negative yields is \$6.7 trillion US dollars...that is an incredible figure.

If I change the interest rate screen to global bonds that pay 1.0% or less (including negative returns) the total figure is a mind-numbing \$21 trillion US dollars!*

*Bank of America Merrill Lynch Global Research

Central bank interest rates



The case I am trying to build in these editorials is that **global growth continues to slow**. The growth is slowing because of all of the additional debt that is being used to try and stimulate growth by buying assets. The whole stupid concept reminds me of the alcoholic who needs one more drink to get through the day and get better tomorrow!

Yes, the Quantitative Easing process supports the valuation of asset prices and keeps interest rates low so companies and individuals can afford to borrow more. But there are limits.

So let's take a closer look at what our Government bond yields look like at home in Canada. You might be surprised to see how close to 0% Canada has come!

Government of Canada 1 year due Sept 30th 2016 – 0.41%

Government of Canada 2 year due Sept 1st 2017 – 0.44%

Government of Canada 3 year due Sept 1st 2018 – 0.42%

Government of Canada 5 year due Dec 1st 2020 – 0.66%

Government of Canada 10 year due June 1st 2025 – 1.41%

Not exactly the type of return one feels they could retire on. To add insult to injury, the risk in the 10 year Canada bonds if interest rates EVER did go back up is significant.

Yet, institutional investors are buying these types of bonds at the fastest rate in over 2 years. Why? Because they fear Canada will soon be joining the “*negative interest rate policy*” club. (NIRP club)

All of this bluster has me considering a combination of “straight” and “rate/reset” preferred shares again.

As one client said to me last week, “*My RRIF has to buy some riskier yield based investments or it will lose all of its value too quickly*”. That is an extremely sad comment, but absolutely true!

I know, I can see many of you rolling your eyes at the computer screen reading these words. Preferred shares have been an ugly experience the last few years. But let’s be frank about safe yielding investments...**where exactly do we turn to make a return?**

Many investors were enjoying the fat yields of the oil based investments...until oil decided to head decidedly down and now sit with some nasty losses on these holdings. REITS and preferred shares have seen their “air pockets of pain”. Junk bonds and high yield funds have all started rolling over to the downside too.

Here is an example of what an Enbridge rate/reset preferred share yields:

Price - \$16.05 (down from \$25.00) **Yield** – 6.23% until March 1st 2018

Rate Reset in March 2018 – 2.37% + 5 year Gov’t of Canada bond rate.

If the 5 year Canada bond was at 1% in March 2018 the dividend yield on the share in the example above would be **5.25%** based on today’s market value. **And, to top it off, rate/reset preferred shares protect investors in the (unlikely) case of some kind of inflationary rapid increase interest rates because of the reset option.**

At this point, I like the price action I see from preferred shares. I also believe NIRP will be OK for the sector as well.

If you have any questions please feel free to call.

2014 US Income Dispersion Figures

Every year I look at the Distribution of US Wage Earners table and wonder how in the world the US consumer can keep on spending so much money.

Net compensation interval	Wage earners			Net compensation	
	Number	Cumulative number	Percent of total	Aggregate amount	Average amount
\$0.01 — 4,999.99	22,574,440	22,574,440	14.27075	\$46,647,919,125.68	\$2,066.40
5,000.00 — 9,999.99	13,848,841	36,423,281	23.02549	102,586,913,092.61	7,407.62
10,000.00 — 14,999.99	12,329,270	48,752,551	30.81961	153,566,802,438.45	12,455.47
15,000.00 — 19,999.99	11,505,776	60,258,327	38.09315	200,878,198,035.07	17,458.90
20,000.00 — 24,999.99	10,918,555	71,176,882	44.99547	245,317,570,246.88	22,467.95
25,000.00 — 29,999.99	10,192,863	81,369,745	51.43903	279,865,461,187.05	27,457.00
30,000.00 — 34,999.99	9,487,840	90,857,585	57.4369	307,828,947,411.16	32,444.58
35,000.00 — 39,999.99	8,578,215	99,435,800	62.85974	321,200,755,103.44	37,443.78
40,000.00 — 44,999.99	7,553,972	106,989,772	67.63509	320,563,569,965.15	42,436.43
45,000.00 — 49,999.99	6,542,882	113,532,654	71.77126	310,391,706,424.23	47,439.60
50,000.00 — 54,999.99	5,723,269	119,255,923	75.38931	300,016,377,448.51	52,420.46
55,000.00 — 59,999.99	4,846,517	124,102,440	78.4531	278,354,367,841.41	57,433.90
60,000.00 — 64,999.99	4,201,232	128,303,672	81.10897	262,203,932,128.68	62,411.20
65,000.00 — 69,999.99	3,573,471	131,877,143	83.36799	240,948,179,180.40	67,426.93
70,000.00 — 74,999.99	3,094,739	134,971,882	85.32437	224,145,278,103.36	72,427.85
75,000.00 — 79,999.99	2,684,481	137,656,363	87.0214	207,853,372,824.62	77,427.77
80,000.00 — 84,999.99	2,297,338	139,953,701	88.4737	189,370,862,869.17	82,430.56
85,000.00 — 89,999.99	1,975,400	141,929,101	89.72248	172,719,042,418.70	87,434.97
90,000.00 — 94,999.99	1,714,370	143,643,471	90.80624	158,442,931,588.44	92,420.50
95,000.00 — 99,999.99	1,486,636	145,130,107	91.74604	144,858,203,365.61	97,440.26
100,000.00 — 104,999.99	1,309,068	146,439,175	92.57358	134,083,282,259.67	102,426.52
105,000.00 — 109,999.99	1,117,128	147,556,303	93.27979	120,020,513,136.11	107,436.67
110,000.00 — 114,999.99	977,055	148,533,358	93.89745	109,855,105,705.14	112,434.93
115,000.00 — 119,999.99	865,889	149,399,247	94.44483	101,693,061,676.62	117,443.53
120,000.00 — 124,999.99	773,339	150,172,586	94.93371	94,660,281,091.31	122,404.64
125,000.00 — 129,999.99	673,971	150,846,557	95.35977	85,886,152,964.93	127,433.01
130,000.00 — 134,999.99	595,827	151,442,384	95.73643	78,899,843,713.01	132,420.73
135,000.00 — 139,999.99	527,341	151,969,725	96.0698	72,476,546,845.30	137,437.72
140,000.00 — 144,999.99	466,992	152,436,717	96.36501	66,519,743,635.12	142,443.00
145,000.00 — 149,999.99	419,003	152,855,720	96.62989	61,787,674,520.19	147,463.56
150,000.00 — 154,999.99	384,581	153,240,301	96.87301	58,607,775,121.57	152,393.84
155,000.00 — 159,999.99	335,391	153,575,692	97.08503	52,801,735,517.69	157,433.37
160,000.00 — 164,999.99	296,048	153,871,740	97.27218	48,087,213,596.86	162,430.46

165,000.00 — 169,999.99	265,309	154,137,049	97.4399	44,426,198,104.69	167,450.78
170,000.00 — 174,999.99	239,515	154,376,564	97.59131	41,304,379,348.95	172,450.07
175,000.00 — 179,999.99	216,255	154,592,819	97.72802	38,370,042,895.27	177,429.62
180,000.00 — 184,999.99	200,592	154,793,411	97.85483	36,588,064,085.78	182,400.42
185,000.00 — 189,999.99	179,005	154,972,416	97.96799	33,554,727,208.93	187,451.34
190,000.00 — 194,999.99	165,277	155,137,693	98.07247	31,807,897,759.84	192,452.05
195,000.00 — 199,999.99	154,070	155,291,763	98.16987	30,425,466,536.83	197,478.20
200,000.00 — 249,999.99	1,039,897	156,331,660	98.82726	230,863,458,226.21	222,006.08
250,000.00 — 299,999.99	565,105	156,896,765	99.1845	153,945,762,663.99	272,419.75
300,000.00 — 349,999.99	333,584	157,230,349	99.39537	107,708,119,615.81	322,881.55
350,000.00 — 399,999.99	219,923	157,450,272	99.5344	82,117,070,706.61	373,390.10
400,000.00 — 449,999.99	151,162	157,601,434	99.62996	63,997,346,472.50	423,369.28
450,000.00 — 499,999.99	108,881	157,710,315	99.69879	51,583,042,398.64	473,756.14
500,000.00 — 999,999.99	345,935	158,056,250	99.91748	230,331,407,862.96	665,822.79
1,000,000.00 — 1,499,999.99	65,548	158,121,798	99.95892	78,672,933,288.58	1,200,233.92
1,500,000.00 — 1,999,999.99	24,140	158,145,938	99.97418	41,431,838,733.52	1,716,314.78
2,000,000.00 — 2,499,999.99	12,137	158,158,075	99.98185	26,997,226,154.27	2,224,373.91
2,500,000.00 — 2,999,999.99	6,871	158,164,946	99.98619	18,747,446,313.27	2,728,488.77
3,000,000.00 — 3,499,999.99	4,799	158,169,745	99.98923	15,507,304,422.66	3,231,361.62
3,500,000.00 — 3,999,999.99	3,258	158,173,003	99.99129	12,166,741,762.34	3,734,420.43
4,000,000.00 — 4,499,999.99	2,353	158,175,356	99.99277	9,970,953,222.98	4,237,549.18
4,500,000.00 — 4,999,999.99	1,822	158,177,178	99.99393	8,633,941,395.34	4,738,716.46
5,000,000.00 — 9,999,999.99	6,468	158,183,646	99.99802	43,887,775,808.42	6,785,370.41
10,000,000.00 — 19,999,999.99	2,230	158,185,876	99.99942	30,065,006,121.19	13,482,065.53
20,000,000.00 — 49,999,999.99	776	158,186,652	99.99992	22,450,911,983.01	28,931,587.61
50,000,000.00 and over	134	158,186,786	100	11,564,829,969.82	86,304,701.27

There is a lot to mull over when you look at the table. I have highlighted two themes that struck me: (in red font)

1. 51% of Americans earned less than \$28,000 in 2014.
2. If this was a Canadian distribution of incomes, Justin Trudeau's new tax rates would only impact about 1.5% of the population.

Feel free to email me with any thoughts that strike you from the data.

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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