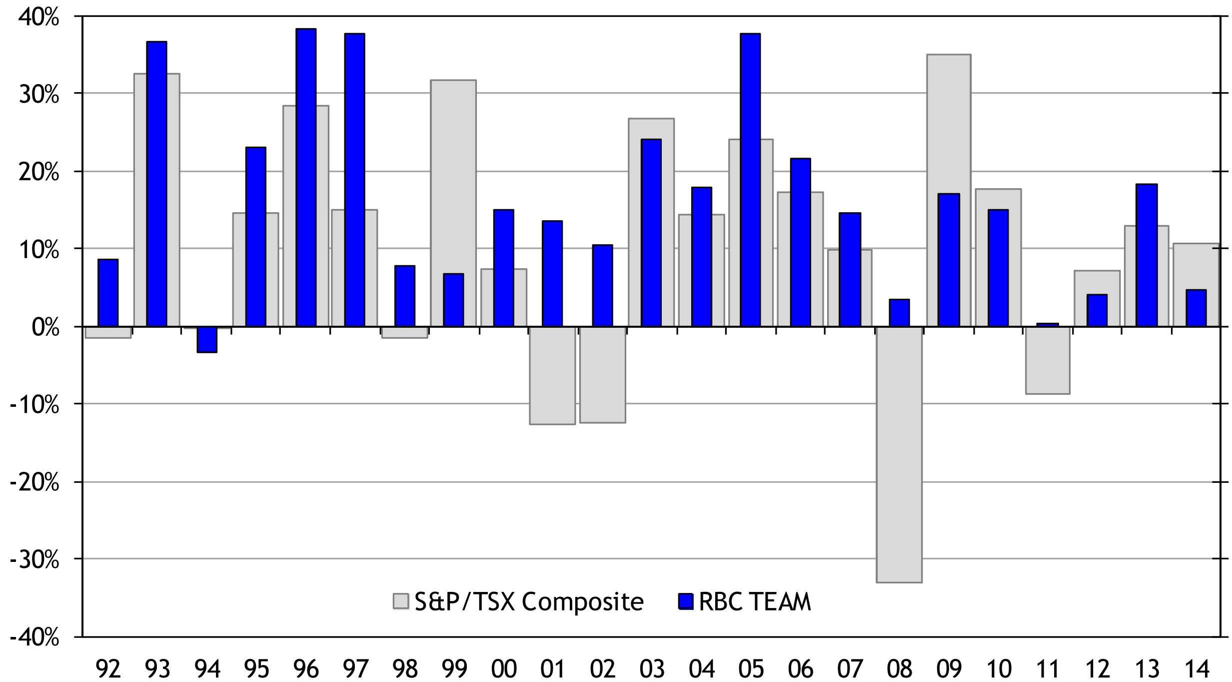
October 26th 2015

"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: 13,953
TSX 200 Day Moving Ave: 14,595
% Above/Below 200 Day Moving Ave: **4.33% Below**
Levels for change: 100% stocks - **TSX 15,324** and 100% fixed income – **TSX 13,865**

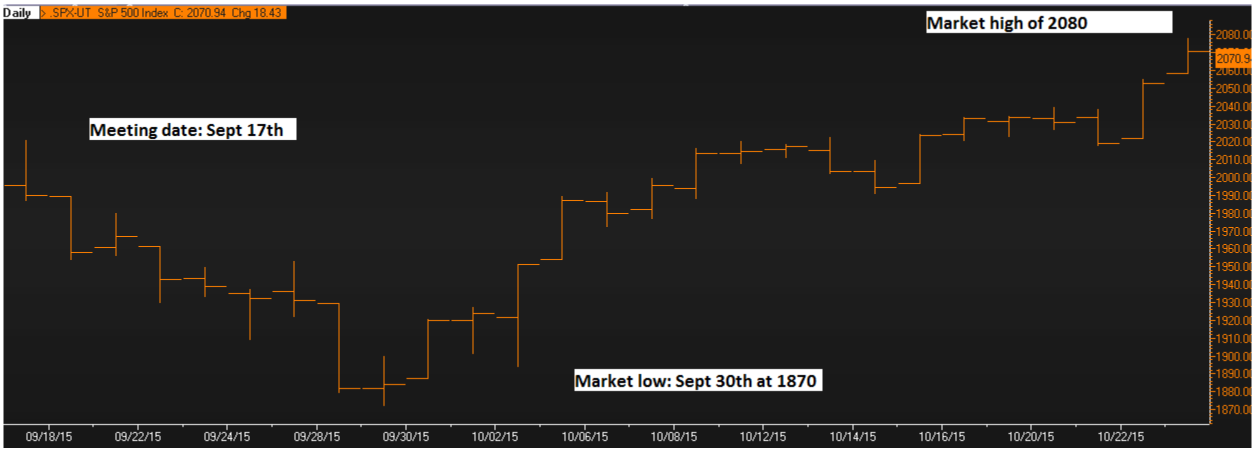
Weekly Quote

Justin Trudeau is trying to relate to the millennial voters by moving back into his childhood home…at 24 Sussex Drive.

<u>*“BULL vs. BEAR”*</u>

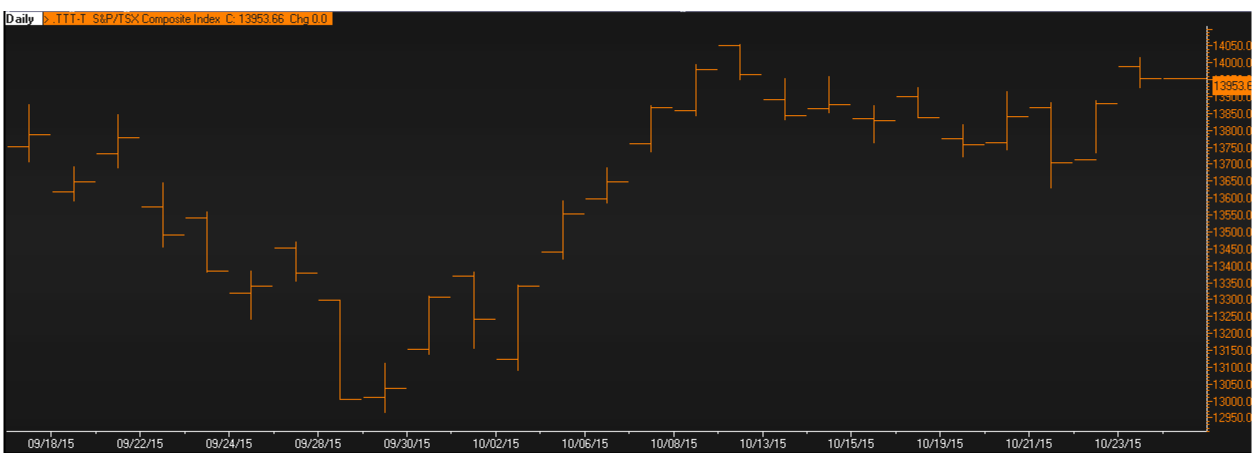
The Federal Reserve stood down from their widely signaled “threat” to “lift off” interest rates…meaning raising the interest rate by .25% after being at near zero for eight years!

Since that time let me show you a chart of the S&P 500.



This represents a 10.70% jump in less than one month. It takes the S&P 500 back to “flat” for the 2015 calendar year.

Note the different chart pattern for the Canadian stock market over the same time period.



Canadian stocks rallied strong in unison from the beginning of October until the 13th. Since then, Canadian stocks have moved sideways.

All of this actoin has the stock market BULLs talking about the resumption of the BULL market that re-asserted itself in 2013. So let’s make their case first:

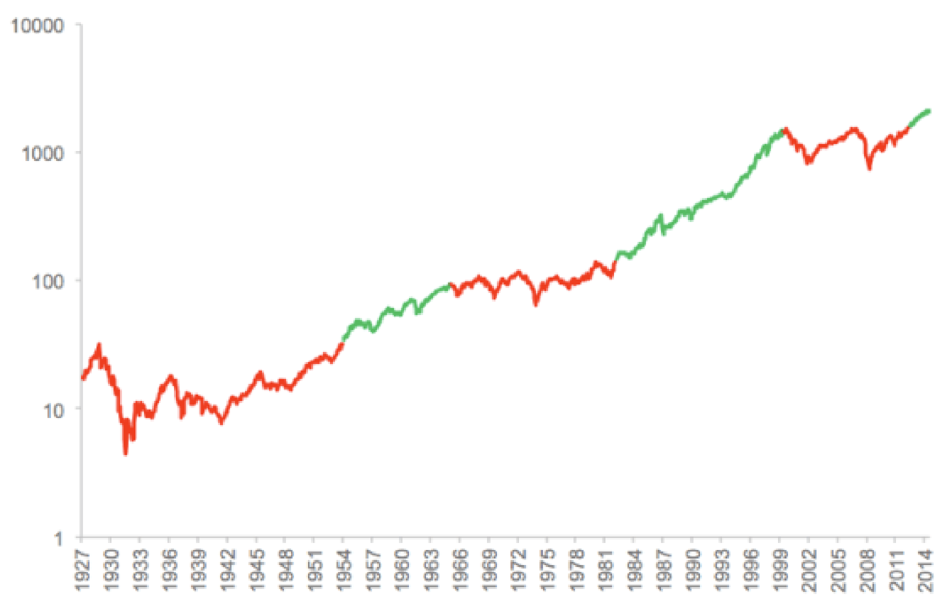
BULL MARKET CASE:

If you invested one dollar in the S&P 500 in 1928 it would have been worth ~$109 by the end of August 2015. If you were to measure the total return (plus dividends), however, that $1 jumps from $109 to $3,362!

It's always important to account for inflation. If we do that, our $1 invested in 1928 becomes $342 in 2015. Compounding at 6.8% after inflation is still an impressive long-term return, even if it is just a tenth of what the total return looks like before inflation is accounted for.

Of course, there have been BEAR markets during that time period. But once the BEAR market is over (established by the stock market eclipsing its previous all-time high) the new BULL market is deemed to have started.

The S&P 500 chart below shows you a graphic making this point a case:



(The green sections of the chart show the start of each "generational BULL market advance.) Let's also look at the compound rates of return for the BULL and BEAR time frames show on the chart above.

Secular Cycles	CAGR (Price Only)
December 1927 - October 1954	2.20%
November 1954 - December 1965	9.40%
January 1966 - December 1982	2.50%
January 1983 - March 2000	14.60%
April 2000 - March 2013	0.60%
April 2013 - Today	7.20%

The BULLISH bottom line is that the BEAR market that started in April 2000 ended in March of 2013 when stocks made a new ALL-TIME high. Stocks have offered an excellent store of value after extended BEAR market periods and we are presently at the beginning of such a time! It should last for another 12 to 15 years.

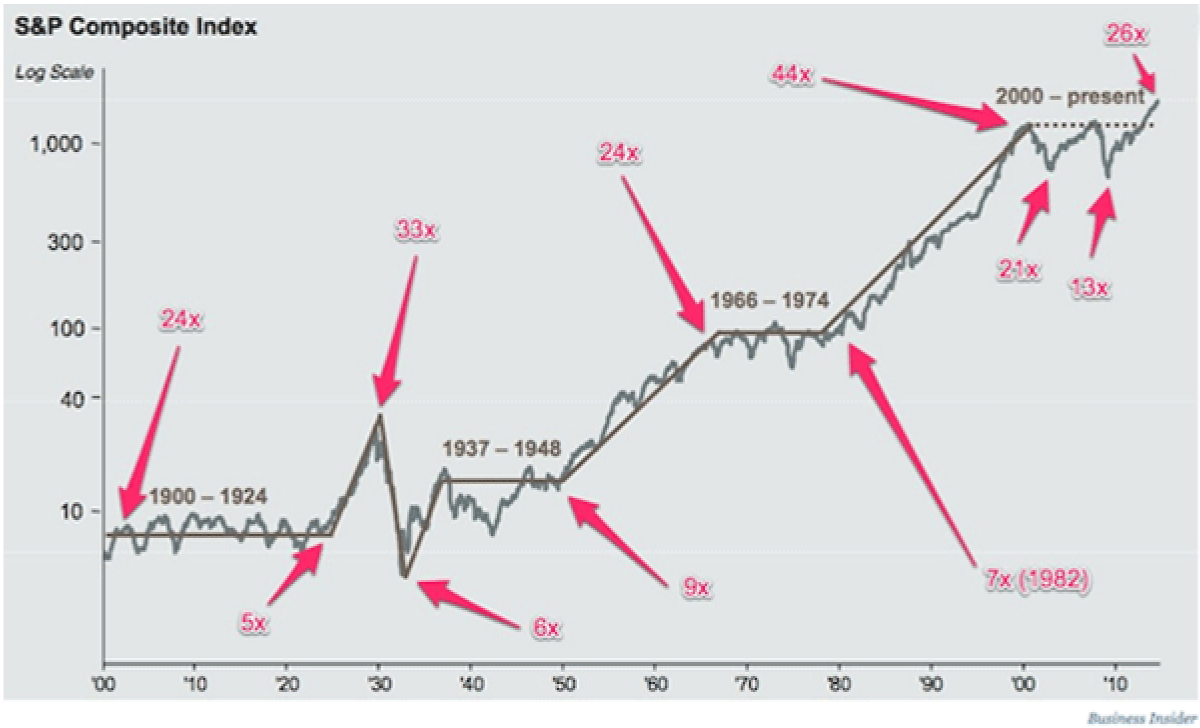
THE BEAR CASE:

Global economies are weakening. At the end of the day, Quantitative Easing, stock buy-backs, and manipulated interest rates cannot support the real, “Main Street” economy. Actually, these manipulations hurt “Main Street” by destroying savers abilities to save and encouraging reckless spending.

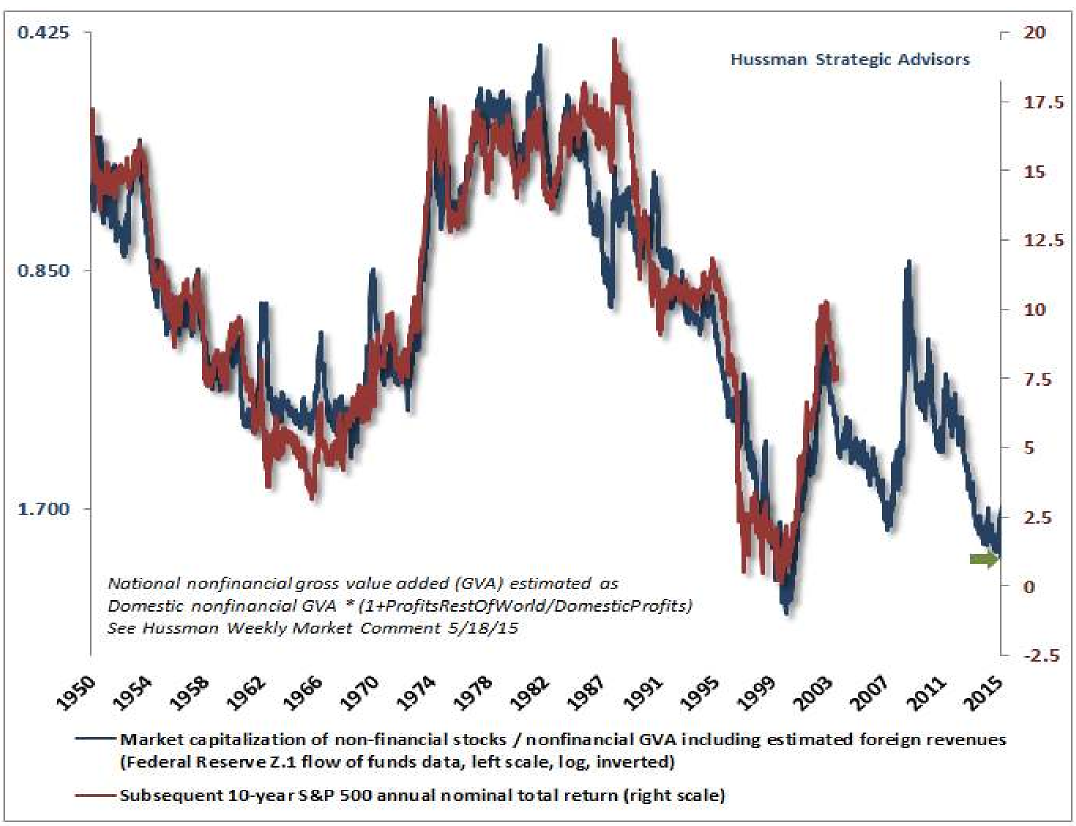
Asset prices (stocks and real estate) respond well to the QE, stock buy-backs and low interest rates…but at some point value must come into the equation and value depends upon a robust economy and real earnings growth…not manipulated financials.

BEARS make the case that stocks are still expensive relative to the same time periods used in the BULL case above. The fact that the S&P 500 made a new all-time high in 2013 is not the primary determiner of a “new BULL market”. The BEARS make the case that “valuation is the primary determiner of a new BULL market”.

The chart below makes the case for an expensive S&P 500:



The next chart makes the case for the total rate of return for the S&P 500 in the coming 10 years to be somewhere around 1%.



The bottom line for the BEAR case is, at some point, the artificial set of interest rate conditions and money printing cannot be maintained. At that time, interest rates will go higher and cause a significant disruption in the asset markets where debt is the spread throughout the financial system.

I find it all a rather spectacular show. The BULLS and the BEARs are both armed with lots of data and are show incredible conviction that they are "right".

As an investor, I try to balance my investments to benefit from both arguments. That is really the beauty of the TEAM models and "tactical allocations". The TEAM can be BULLISH, Neutral, or BEARISH. It can change if the situation in the underlying market deems it time to change. IT WILL NEVER LET YOU MAKE THE BIG MISTAKE.

Every day I build portfolios for investors to reflect what they believe is happening to markets. Some are BULLS…Some are BEARS. **My goal is to make sure that their investments reflect their beliefs and their risk tolerances**. I also make sure that they don't become PIGS. (Remember the old adage…BULLS make money, BEARS make money…PIGS get slaughtered.)

As always, feel free to talk about any of these thoughts!

Our New Prime Minister and the Canadian Dollar

Last week I included a short section on the Canadian election. In it my guess was a Liberal minority government result.

Wow…did that prediction ever fall short of what eventually happened!

Justin Trudeau stormed into power with dramatic fashion. I guess that makes sense when you think of Justin Trudeau and his political genes.

If you were one of the voters who hated Stephen Harper and what he stands for…you are obviously happy at the election result.

If you voted for Stephen Harper's Conservative party and now look at the fresh face of Justin Trudeau and wonder what the next four years is going to look like…I would like to encourage you, Mr. Harper left this country in a condition that will be able to hold its own as global challenges arise. Prime Minister-elect Trudeau has a chance to make good on some of his bold promises from the election because of what Stephen Harper did, but it won't be as easy as he hopes!

Last week I wrote the following sentence near the end of the editorial:

"My fear today centers around the serious possibility of a continued drop in our currency (C$) if helicopter money were to be employed." (Inferring a Liberal win).

I stand by that statement now.

It is one thing to print money and engage in "exotic monetary policy" when you are a ***world reserve currency*** like the US dollar or the Euro. It is a completely different scenario when your country has a "***currency of convenience***" like the Canadian dollar.

Currencies of convenience are paper currencies in countries that investors CHOOSE to invest in. Investors identify specific opportunities and make their investment. Reserve currencies are currencies of convenience too…but they have the added benefit of settling international commercial activities and, therefore, are required investments by countries, companies, and individual investors.

My point, **if the new Liberal government gets carried away with its idea of running deficits then investors will exit the Canadian dollar at their convenience.** They do not have to hold Canadian dollars.

If currency short sellers catch wind of this type of an exit…they will begin to bet on the Canadian dollar's decline and accelerate the rate at which it falls.

Last week the Canadian dollar fell 1.47 cents…we will watch this development closely.

Away from the currency, I think the new Liberal majority is slightly BULLISH for Canadian stocks and NEUTRAL for Canadian interest rates.

A last comment…when one is sitting as a board member on a board of directors and fighting out policy in the boardroom, one should dig in and make sure they do everything in their power to persuade the board to take their favoured course of action.

Once the board vote is taken and a decision is reached (whether that decision reflects their opinion or not), the board needs to stand united in that decision and show strong support for it.

No matter what the individuals' convictions are INSIDE the boardroom…the outside world sees a united front!

I feel that way about the election now that it is over. No matter which party you voted for or what you believe to be the "right" result, it is time to stand up and support Prime Minister-elect Trudeau and do your part to keep Canada strong!

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.