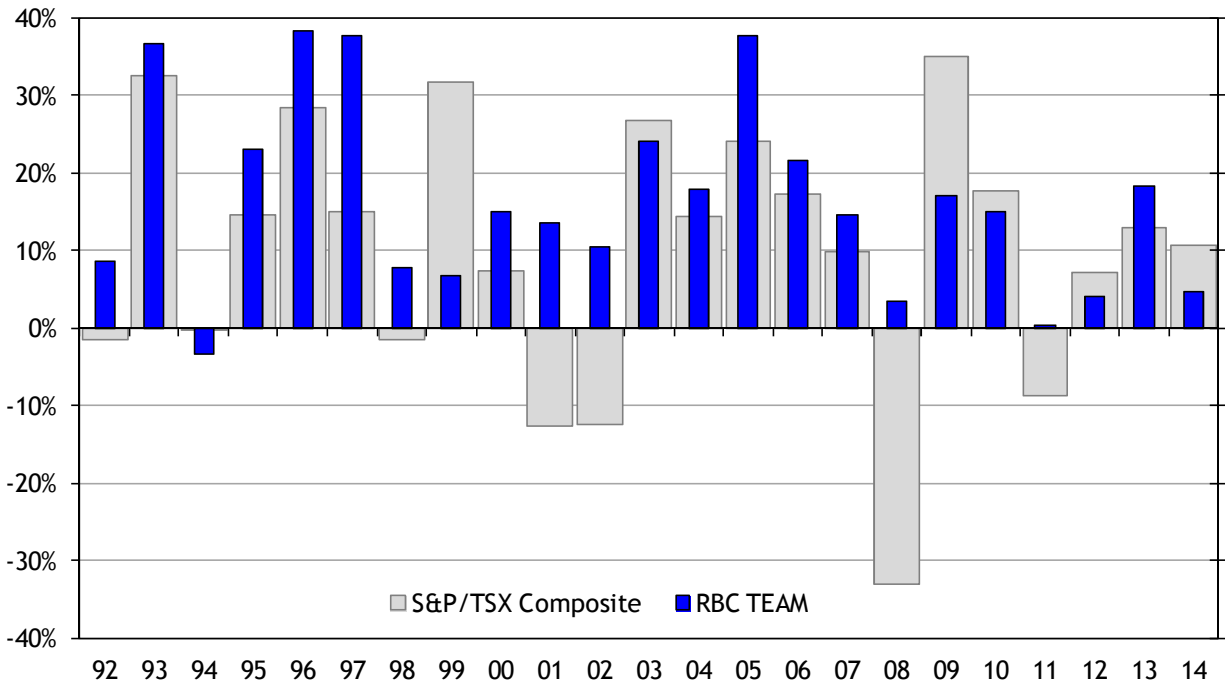


September 28th 2015

“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: 13,379
TSX 200 Day Moving Ave: 14,623
% Above/Below 200 Day Moving Ave: **8.51% Below**
Levels for change: 100% stocks - **TSX 15,421** and 100% fixed income – **TSX 13,953**

Weekly Quote

“To turn \$100 into \$110 is work. To turn \$100 million into \$110 million is inevitable.”

Edgar Bronfman Sr.

Money Stress

In my daily professional life, most of my interaction is with high net worth individuals and conversations settle in around the issues that matter to them most...Family, health, and finances. Clearly, since my work involves the financial markets, money and markets tends to get a lot of attention.

For the first time in my 28 year career I am seeing a significant amount of “money stress” for many of these people.

One more typical stress noticed is where **uncertainty in the financial markets keeps investors worried about what investments they should hold**. What is different and difficult this economic cycle is the “safe investment options” pay low rates of return so investors have been forced to hold more risk assets for longer time periods to keep their cash flow rolling in.

The second stress is unique to this economic cycle. **This stress is coming from the family side of the equation where high net worth individuals are seeing their family’s struggle financially and feel the need to help**. The challenge is the high net worth older generation is also living longer so they are stressed to know if they are going to have enough wealth to see them through for their entire lives.

Taken together with the low rate of return on safe investments, an incredibly stressful picture emerges. **MANY HIGH NET WORTH INDIVIDUALS HAVE MUCH HIGHER PERCENTAGES OF RISK ASSETS IN THEIR PORTFOLIOS THIS ECONOMIC CYCLE THAN IN ANY OF THE PREVIOUS CYCLES OF THEIR LIVES!**

Since the 2009 “great recession” until 2014, the financial markets have provided a buffer for the stresses mentioned above. In other words, interest rates declined causing bond funds to rise AND stock markets also went higher. To add to rates of return, the Canadian dollar devalued so American assets held by Canadians provided an extra level of “return in Canadian dollars.”

But these tailwinds have changed in 2015.

And now investors find themselves with the “stressful” combination of:

1. Higher than normal stock market exposure due to the low rates of return on safe investment options and the fact that dividend yields in many cases are higher than GIC rates.
2. More “line of credit” and “mortgage” debt than in any other cycle in history. The attitude has been “if interest rates are this low...why not?”
3. More “auto loans” than ever before. 0.99% or lower is hard to resist.

4. More family demands for help than ever before. Children of the older generation where net worth is concentrated tended to live above their means and often need some financial help. Also, the grandchildren need help with educational expenses or even just a bit of a leg up with that first condo down payment.

There are lots more situations that add to the financial stress of individuals but I think you get the picture. The perception is that having an above average net worth creates a stress-free life...and in some ways that is absolutely true. But there are entirely different subsets of stresses that come with wealth.

Does any of this sound vaguely familiar to you own personal situation?

If it does then I have a proposition for you to consider.

The point of writing this section of the weekly editorial is to invite you to have a formal financial plan done. If you are a client and have more than \$500,000 Canadian invested at RBC Dominion Securities you qualify for a complimentary financial plan to be created by our in-house financial planning expert.

A number of clients have already had the plans done and the feedback has been very impressive.

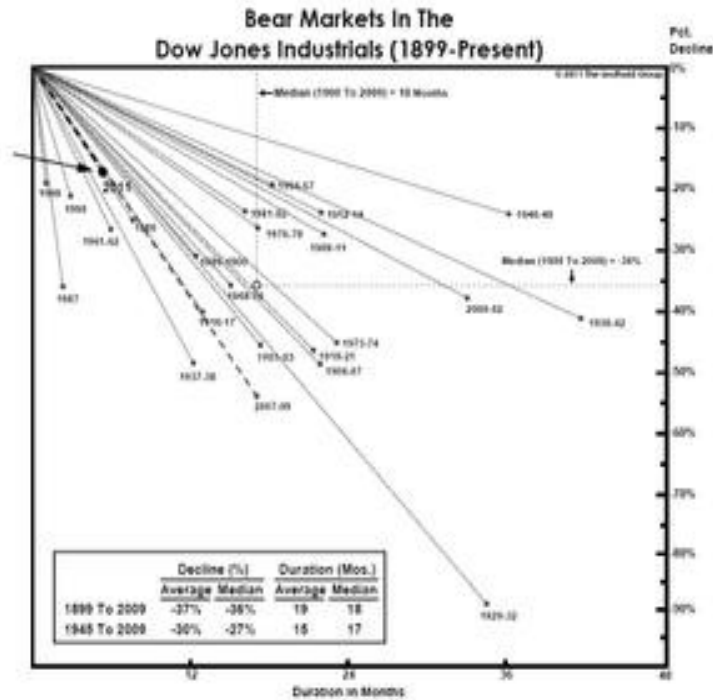
Even though there is no cost for you to have a plan done, I don't want you to think it comes at no effort on your part. **It requires a "homework" package to be filled out by you outlining your present financial condition. Then it requires two meetings that are about 1 ½ hours each. The first meeting is where the planner uses your homework package and asks questions to fill in the blanks that allow her to create the plan. The second meeting is where she presents the financial plan for you to apply where you see fit. Finally, I sit down with you a week after the plan presentation and we review together the recommendations in the plan.**

If you think you might be interested in this complimentary service please give me a call.

"Weekly Roundup"

Last week started off on a weak footing and markets rushed to the downside after a pretty good set of trading days the week before. All of this bluster is typical of a BEAR market pause on the road to a "lower low" on the indexes.

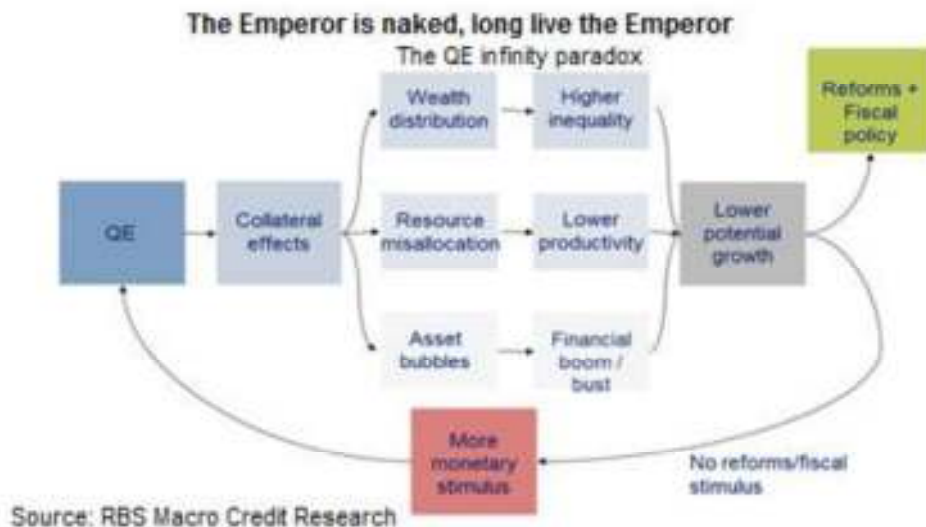
There is not a bunch more to add to the specifics of last week's trading. Keep in mind, the average BEAR market usually lasts about 1/3rd of the length of time of the previous BULL market and gives back around 40% of the gain (peak to trough).



If that holds true for the present BEAR we are still in its early stages.

A client sent me an email last week asking why the central banks would bother to do another QE when the past three initiatives have had such mixed success. Well, as the old expression goes *“if all you own is a hammer, then the entire world tends to look like a nail.”*

But a more specific answer lies in what happens when QE is administered. Please look at the flow chart below:



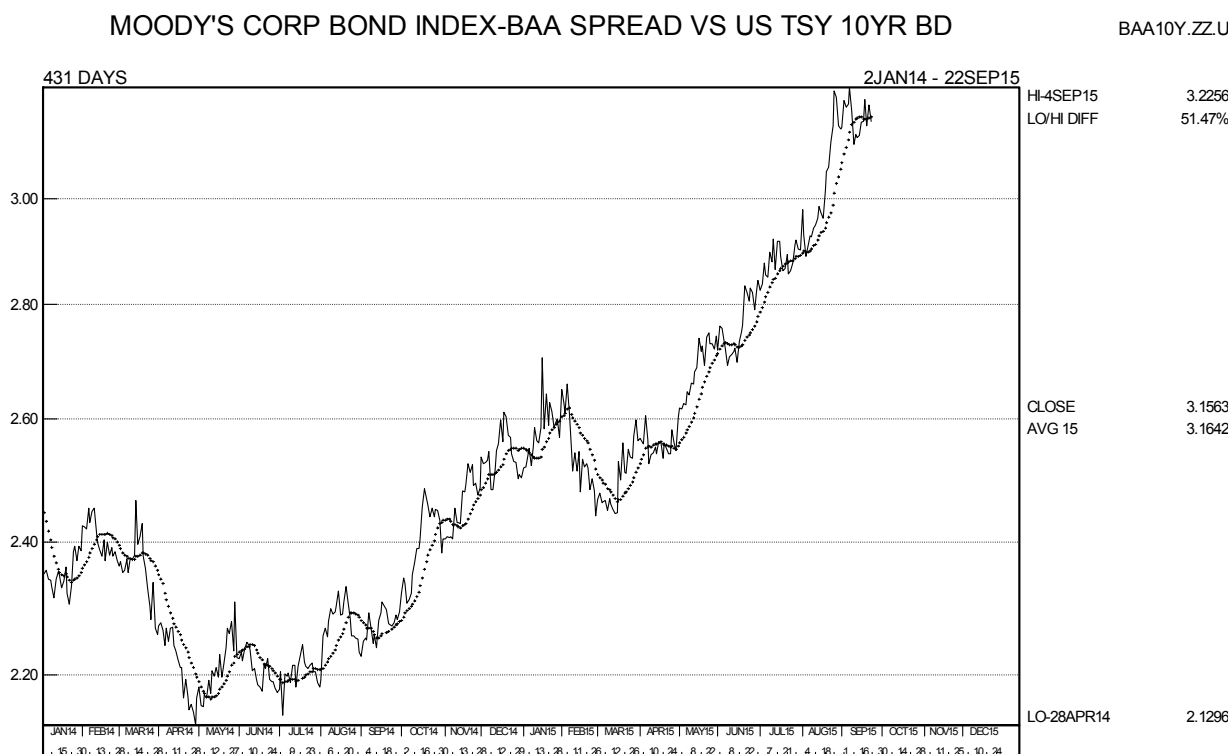
The flow chart is much like the experience of the “heroin junkie”. The junkie knows the overall impact of taking more heroin is negative for their long term future, but the short term euphoria takes away the pain and, therefore, deemed to be “worth it”.

The only way out of the cycle for the junkie is “rehab”. For the financial markets, the equivalent of rehab is “Reforms and Fiscal Policy” restructuring. (Green box above)

I just can’t see the global central banks choosing the “rehab” option on their own. It is only when the bond markets take away their ability to print more money with higher interest rates and inflation that the cycle ends.

Let me show you one more chart so you can see what it means for the bond markets to take away the ability of the central banks to print more money.

The chart below is the yield on the BBB/BAA 10 year corporate bond market. Notice how much the yields have gone up on these investments.



Yields are not rising because of “the AAA bond markets having higher yields”. These yields are going higher because people are worried that some of these bonds are going to default in the future.

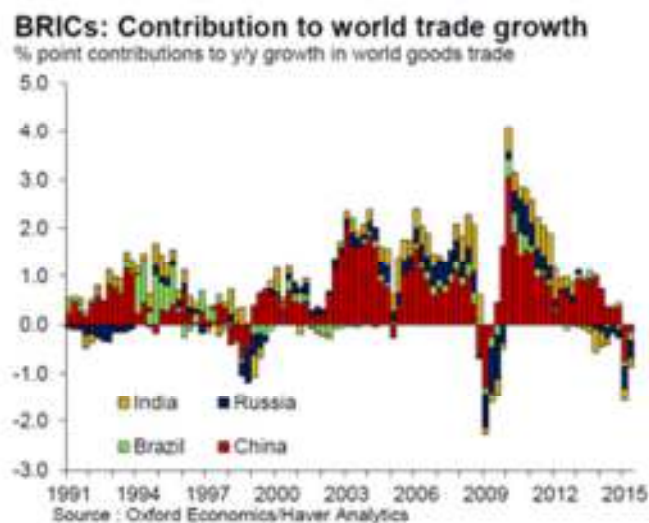
The current super-cycle of debt took 40 years to create. It is not going to unwind in a day...but it is in the process of unwinding. Stay defensive and wait for a clear technical signal to become more aggressive again.

“Global Trade...Drastically Slows”

I’m not sure how many people will really care about this part of my weekly comment. But for those who are fundamentally bent towards global economics you will find the following thoughts interesting.

Actually, it is rather generous using the “drastically slows” description for global trade. If you look at the works traditional “exporter” nations the decline has gone severely negative!

The first chart below shows the contributions of Brazil, India, China, and Russia to global trade.



Next, the ECRI chart shows the global export “volume” and “price” growth rates. All I can add is that all you get for \$27 trillion in global QE?



Interest rates are going to have a difficult time being raised by any central bank around the world given the two charts above.

But what if the financial markets decide to “raise rates” by losing confidence in the central banks themselves? Hmmm?

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.

Securities or investment strategies mentioned in this newsletter may not be suitable for all investors or portfolios. The information contained in this newsletter is not intended as a recommendation directed to a particular investor or class of investors and is not intended as a recommendation in view of the particular circumstances of a specific investor, class of investors or a specific portfolio. You should not take any action with respect to any securities or investment strategy mentioned in this newsletter without first consulting your own investment advisor in order to ascertain whether the securities or investment strategy mentioned are suitable in your particular circumstances. This information is not a substitute for obtaining professional advice from your Investment Advisor. The commentary, opinions and conclusions, if any, included in this newsletter represent the personal and subjective view of the investment advisor who is not employed as an analyst and do not purport to represent the views of RBC Dominion Securities Inc. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member–Canadian Investor.