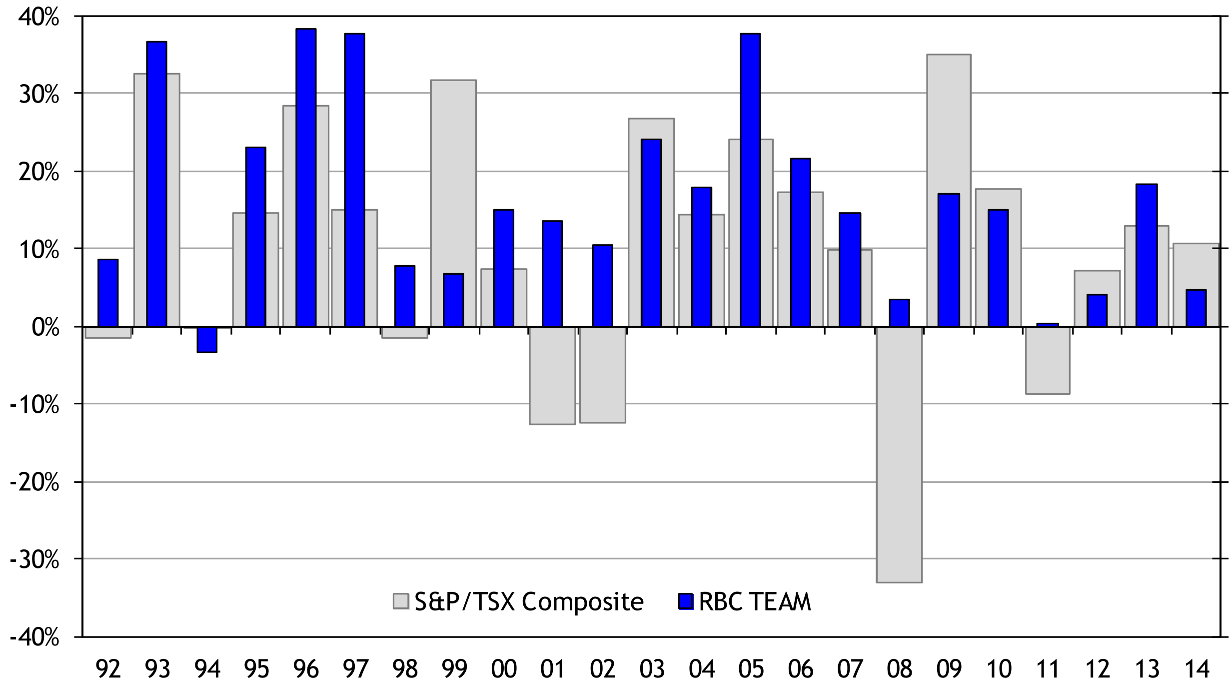
September 21st 2015

"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: 13,647
TSX 200 Day Moving Ave: 14,687
% Above/Below 200 Day Moving Ave: **7.08% Below**
Levels for change: 100% stocks - **TSX 15,421** and 100% fixed income – **TSX 13,953**

Weekly Quote

"Giving liquidity to bankers is like giving a barrel of beer to a drunk. You know exactly what is going to happen. You just don' know which wall he is going to choose.

Nick Sibley, former Managing Director, Jardine Fleming

What's Next?"

"Don't give me a low [interest] rate. Give me a true rate. Give me a true rate, and then I shall know how to keep my house in order."

German Reichsbank President Hjalmar Schacht, 1935

By now I am sure you know that the US Federal Reserve failed to raise interest rates off of the zero bound last week again. This marks the 55th meeting of the FED where they have either lowered the FED funds rate or done nothing. It also leaves US interest rate policy at the zero bound for SEVEN YEARS!

In April of 2015 I ran into prominent Nanaimo businessmen walking his dog along the Nanaimo E&N trail. The US FED was finally supposed to raise the interest rate in March 2015 (after passing on the opportunity for over two years) and he made the comment: "***Why can't they just leave interest rates at zero forever?***"

As I recall, my answer was something along the lines of global imbalances. The crazy thing is, I knew it wasn't possible but I really could not articulate exactly why…nor did I have any graphic evidence to back the point either.

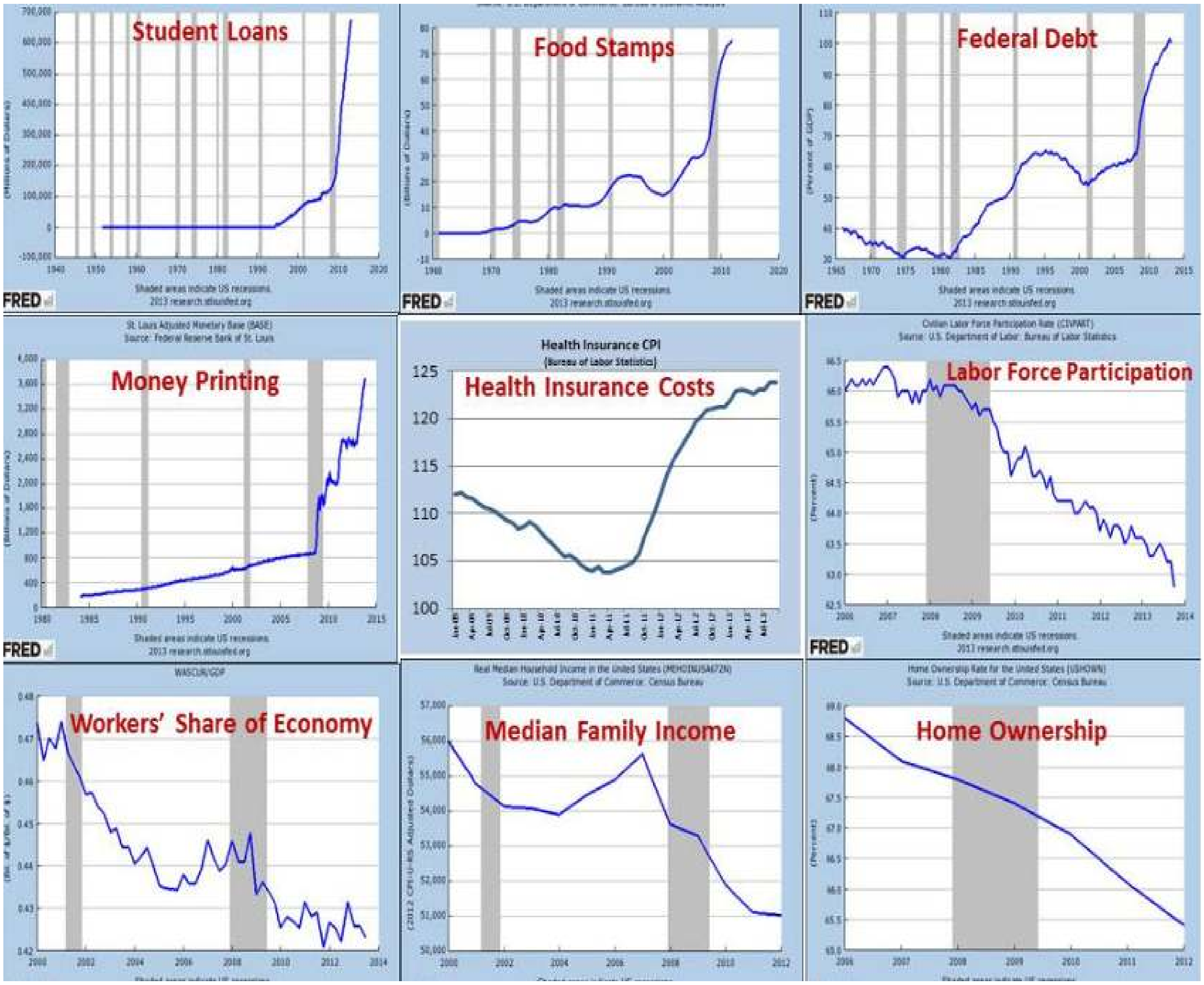
But now, six months later, interest rates are still at zero and the evidence is piling up as to why a zero interest rate is a really bad idea when it is maintained for too long!

Capitalism is a system that requires no manipulation in its purest form. For every seller there is a buyer…for every buyer a seller. Both parties must believe they are receiving a fair value in a transaction. If there are more buyers than sellers, then prices rise…more sellers than buyers, then prices fall.

People (or countries) that believe in Capitalism need to respect and trust this truth. Once the purest aspects of Capitalism are manipulated…IT IS NO LONGER CAPITALISM.

The past seven years have been highly influenced by central banks. Their intentions have been to try and facilitate a greater good, but the results have been anything but for the average person.

Take a good look at the 9 graphs I have included below on the next page.



These are American statistics. Canadians emerged from the last recession in much better shape than Americans, so these charts may not be representative of Canada.

Those are some abysmal results from an unprecedented attempt to manipulate the world's largest economy!

Now let's dig a little deeper.

At the end of the day, **a healthy economy starts with a healthy middle class able to obtain employment to consume goods and services…and pay taxes.** (Does anybody have an argument with me over that point? If so, please reply so we can discuss.)

The three charts above (Food Stamps, Labor Force Participation Rate and Median Income) confirm the American middle class is not in a healthy condition.

Clearly, the readily available "*good job*" engine of the economy has stalled. We often like to blame this on "cheap labour in China and India". But I wonder if Federal Reserve monetary policy has more to do with it than meets the eye? Maybe corporate share buy-back programs deserve some of the blame?

James Montier penned a report titled “*The World’s Dumbest Idea*”.

In this report, Montier is trying to illustrate how the obsession with **stock buybacks and dividends has actually reduced business investment**; **Montier states that shareholders are not providing capital to corporations but are instead extracting it**. He goes on to show that since 1980, public companies have repurchased more equity than they have issued.

The situation is so pervasive now, that expert’s estimate over 25% of S&P 500 have used this strategy to inflate their earnings and this indirectly inflates share prices, which gives them even more impetus to perform the same dirty deeds repeatedly. These shenanigans are not restricted to small players; big companies such as Apple are also using this trick. Soon every company that has access to easy money will employ this tactic. **Hey, why spend time trying to improve business, if you can just borrow the money and give the impression that business is booming, even though profitability might actually be declining**.

When compensation is based on share performance, then individuals will take the easy way out as the sums of money involved are huge. **The era of cheap money only adds gasoline to an already raging fire**. Buying back stock is easier than building new plants, employing more people, or making loans to individuals.

In conclusion, the world is a different financial condition at present than it has been in for nearly 100 years. **For any of us living, we may have experienced the “inflationary stagflation” of the 1970s, but the present is closer to “deflationary stagflation”.**

Please be careful with your investment choices as the world navigates the coming 18 months. Nobody knows how this is going to play out. Stay strategic.

Quick Analysis of September 17th US FED Action

Interesting story: I had two friends who manage funds that I stay in contact with through Twitter. One was betting that the FED would not raise interest rates at the meeting last week. The general consensus was this would make stock markets rise. The other was betting the opposite.

When the US FED announced no interest rate increase the stock markets initially jumped higher. (The expected response). The investor who bet the FED would raise interest rates quickly covered his bets with losses since he had bet incorrectly.

But then the stock markets reversed course and started to decline…quite rapidly! The investor who bet correctly (that the FED would not raise rates) got caught in the whipsaw and she also sold at losses!

Both of these investors are good at what they do…and both are having trouble navigating the present situation. It is good to know we are not alone!

The FED action (of doing nothing) is really quite an important step in the BEAR market of 2015. **I believe it hastens the time line of moving to the anticipated QE4**! It may only take a few months for this to happen now because of the stock market's inability to rally off of what was supposed to be good news.

Keep in touch and please feel free to ask questions. I find the entire situation surrounding the financial markets right now both, disturbing and intoxicating.

Investors who are "asset allocators" should be somewhere near their lowest percentage of holdings in equities at this moment. Again, if you want to talk about this please feel free to contact me.

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.