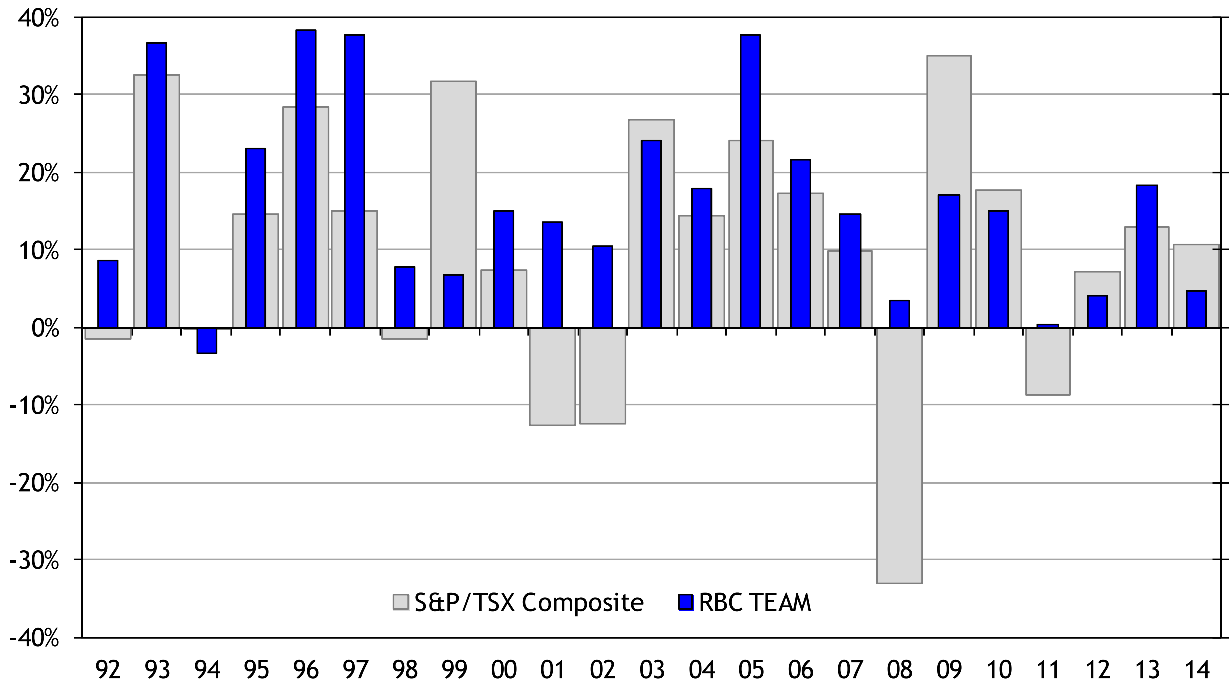
August 31th 2015

"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: 13,865
TSX 200 Day Moving Ave: 14,746
% Above/Below 200 Day Moving Ave: **5.97% Below**
Levels for change: 100% stocks - **TSX 15,483** and 100% fixed income – **TSX 14,010**

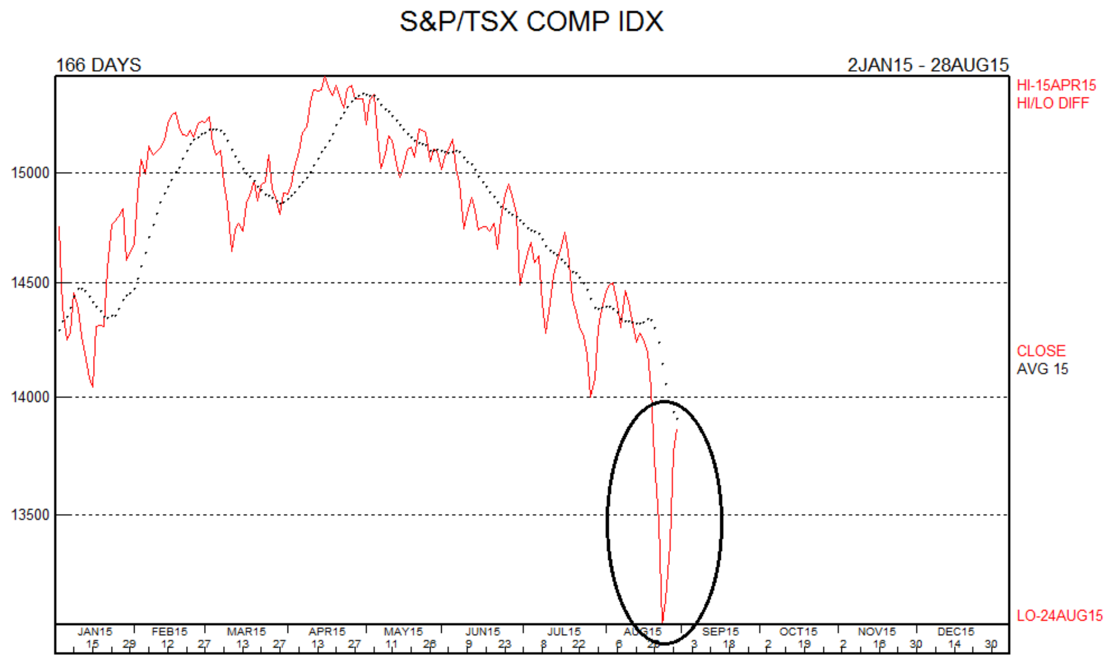
Weekly Quote

"Better to mistake a rock for a bear, than a bear for a rock" – negativity bias in nature

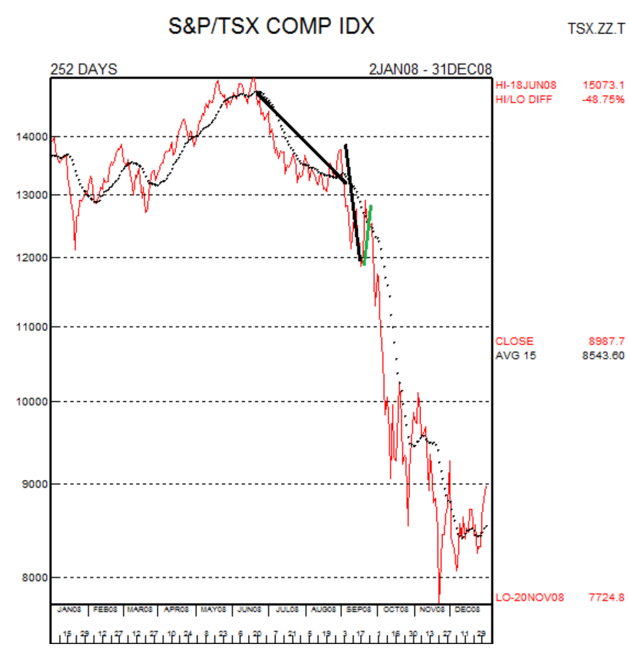
Nick comment – just as true in the markets as it is in nature!

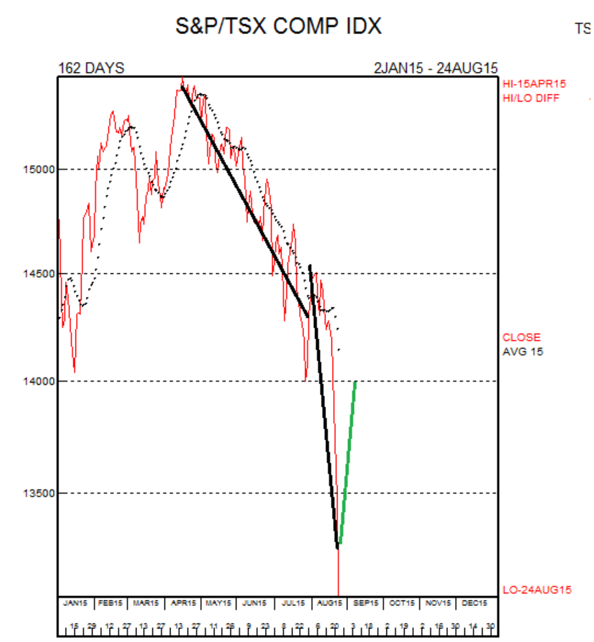
__Financial Market Update – The "Bounce"__

Thankfully, the bounce arrived about right on schedule. After an incredibly violent move to the downside on Monday and late Tuesday, markets reversed with an equal vengeance to finish the week.



Remember from my Tuesday, Aug 25th "special comment" I put in the following graphic. The expected bounce denoted by the green line has been absolutely "text book".





If I had to guess I'd say about 80% of the bounce has been realized. The stock markets traded Friday with much better "on-balance volume". This is a reliable sign "the bounce" is nearing completion. **My "minimum bounce target" was 13,888 for the TSX…we closed the week at 13,865.** (See Aug 25th comment for details)

At the same time, the "downside" still feels like it has some "unfinished business" to take care of in September and October.

There is so much data I could present here that means a lot to me as a "data geek" but not a whole lot to most other people. Let me just make the comment…THIS DECLINE IS DIFFERENT THAN ANY OTHER SINCE 2011. We need to treat it with a greater level of respect and caution for this reason.

"TEAM" Model Update

With a TSX close below 14,000, the TEAM I Model will go to 100% fixed income at today's close.

It worked out well that TEAM was able to catch the end of the week bounce. **Both "technically and fundamentally" the SELL signal comes at an excellent time for long term investors who are focused upon capital preservation over rate of return.**

Let me give you a simplified profile why I believe the SELL signal to be timely.

If the stock markets hold their present levels or go higher, I believe the US FED will raise interest rates on September 15th. This will likely cause stock markets to correct to the downside again.

If stock markets go down again, they will need to fall back to the lows made last week (about 1000 points lower for the TSX) to get the FEDS attention and hold them back from lifting rates.

Either way, it seems the FED has the stock markets in a tough spot.

We will see, but the SELL signal of today feels like it makes the most sense at this time for conservative investors.

"Strong Opinion from an Economic Legend of our Present Time"

To start this section we will use a Q&E excerpt taken from an interview with Joseph Stiglitz. (Joseph Stiglitz is the Nobel Memorial Prize in Economic Sciences winning economist from Columbia University.) – Answer emphasis is mine.

Q: How does America get out of this mess—keeping rates low to support the real economy may spark asset bubbles and speculation in stocks, which then brings the need to increase rates even if the real economy hasn't improved?

A: *My view goes back to what we should have done, which was we needed more fiscal stimulus. We shouldn't have relied as much as we did on monetary policy. But given the politics in America, that wasn't going to happen, and the Fed took what you might call the second-best approach. It still had a responsibility to stimulate the economy, and was trying to balance those various risks.*

Because we put all the burden on monetary policy, it doesn't have much room to maneuver now. It can decide not to tighten, but it can't loosen. <u>So its ability to respond is very asymmetric</u>. *The most that it can do is to postpone the actions it was going to take.*

So as an economist I can answer your question very easily—there's what we should do—but politics in the United States doesn't make it very likely.

Let me be very clear. The point that Dr. Stiglitz is making is absolutely imperative to grasp: **Monetary policy long ago passed its point of making positive impacts on the overall economy.** At best, QE1 was positive…the other two QE programs should never have happened.

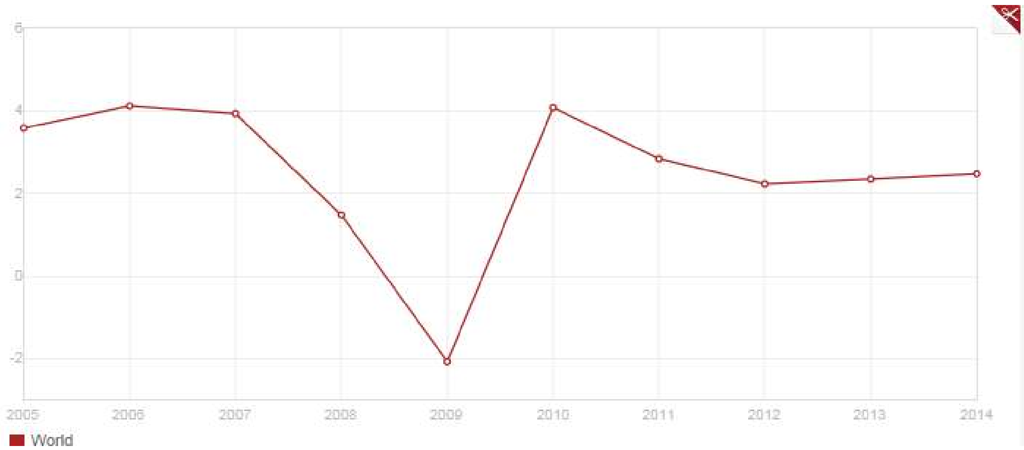
Let me be very clear again. The issue the financial markets are facing is simple.

GLOBAL GROWTH HAS DECLINED IN THE PAST 5 YEAR AND IS NOW STALLED AT THE SAME TIME INTEREST RATES AROUND THE WORLD ARE AT THE ZERO BOUND.

Please read the above sentence again.

When Joseph Stiglitz states "***so (monetary policy's) ability to respond is very asymmetric***" what he is pointing out is that DEFLATION has no more monetary tools to be dealt with. They can raise interest rates to infinity to fight inflation if they have to…but the zero bound is upon the central bankers of the world and growth is slowing!

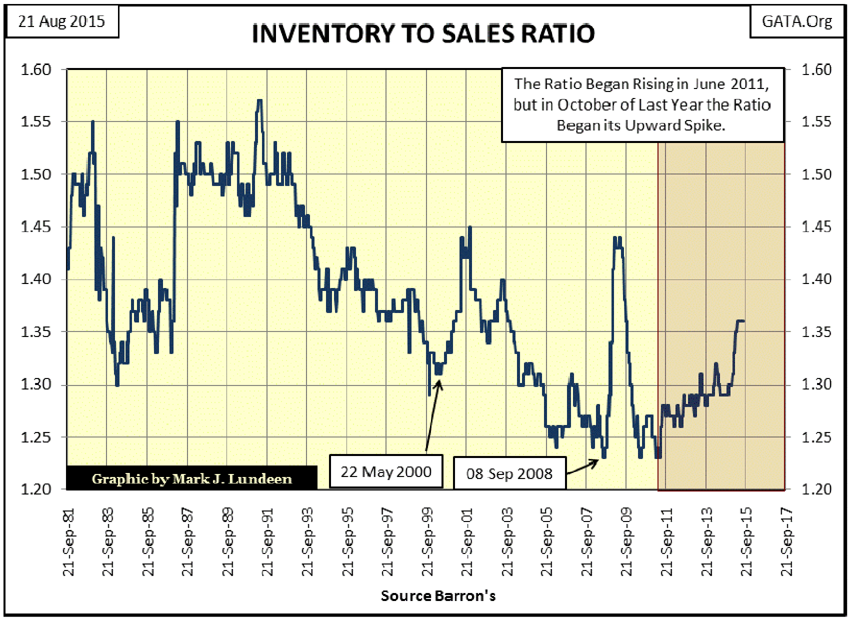
Look at the global GDP chart below published by the World Bank. (Note: 2015 is tracking lower yet again)



Next is the US Leading Economic Index growth rate graphic. It is a forward looking index looking 2 or 3 quarters out.

(As a side note, I find it rather strange that the US can print a 3.7% GDP figure for the second quarter when the Leading Indicator has the downward trajectory right around the zero line. The third graphic included gives part of the answer…a rapid increase in inventories…but 3.7% still seems a little bit "cooked" to me.)

Also check out the US "Inventory to Sales ratio" since 1981. When product sits on the warehouse shelf instead of being sold to consumers it typically means things are slowing.



I find it interesting that, since 2011, each of the "market crises" have had its' roots in an event or concept. It was either Greece, or Russia, or China, or oil, or Iran or etc. But now the issue is simply "growth".

When I think of all the event crises…I can also think of a one sentence answer to solve the problem. "Bail out Greece"…"Isolate Russia"…etc. **But there is no quaint solution to getting the world economies growing again at zero interest rates.**

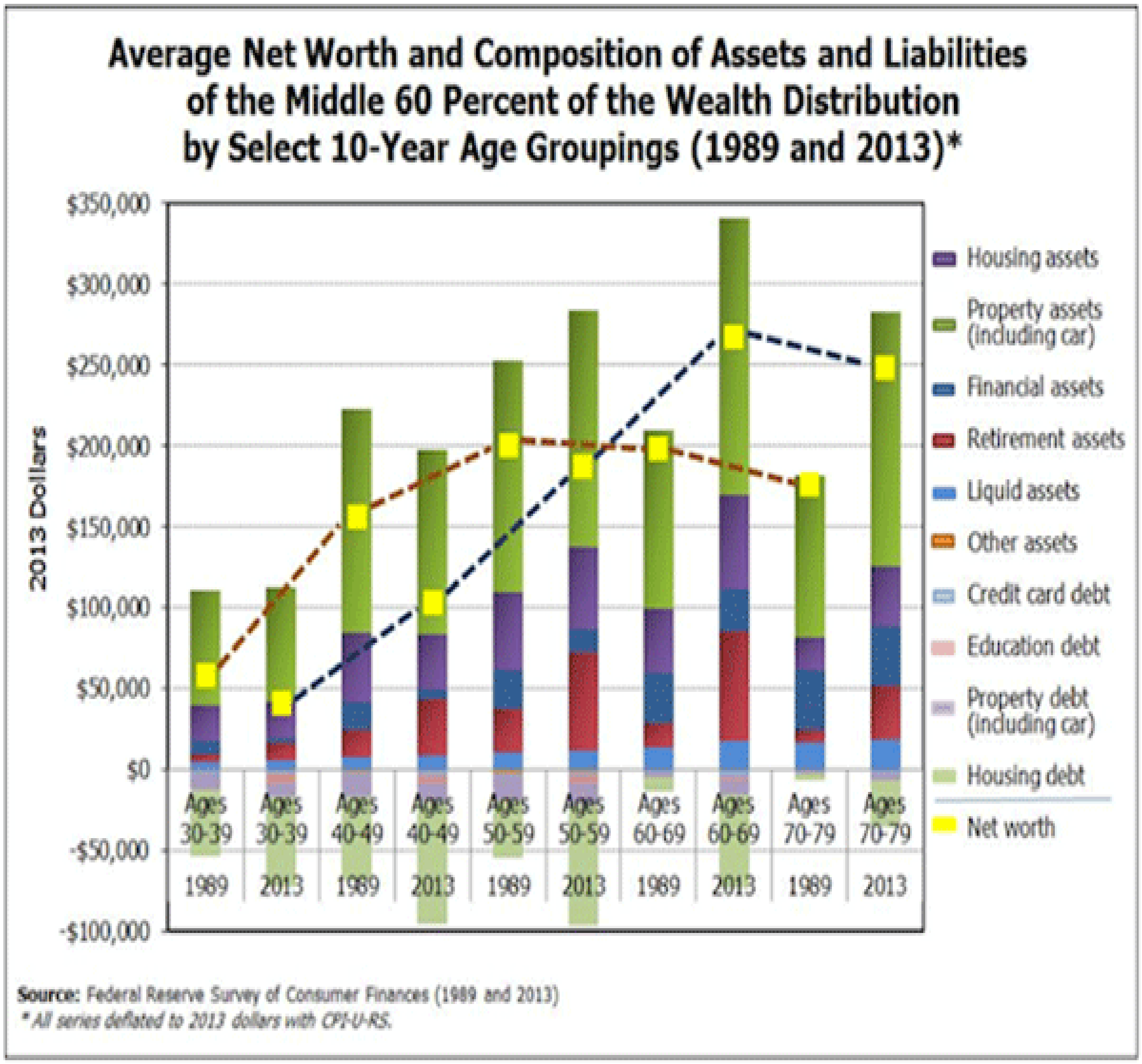
QE was supposed to be the "silver bullet"….Hmmm?

That brings us round trip back to Dr. Stiglitz comment again. The fact that political will to implement a fiscal solution is virtually zero.

One last picture I want to leave you with is demonstrated in a rather "busy" graphic below. It is not tough to understand but it has a ton of data built into the one graphic.

What you are going to look at is the financial circumstances for a person in the 60th percentile of the US population in the two years 1989 and 2013. The graphic breaks down the major components of their financial lives into "net worth" segments.

I am using the graphic to make a single point but there is a bunch of thought provoking themes to be seen if you take some time to think about how the financial profiles have evolved over the past 25 years!



The key to the chart is the yellow "Net Worth" squares. Note how for all of those under the age of 60 the average in 2013 is lower in deflated dollars than 1989. The older generations still have their "net worth" intact.

As the global economy slows it does not help sort out this issue for the younger generations.

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.