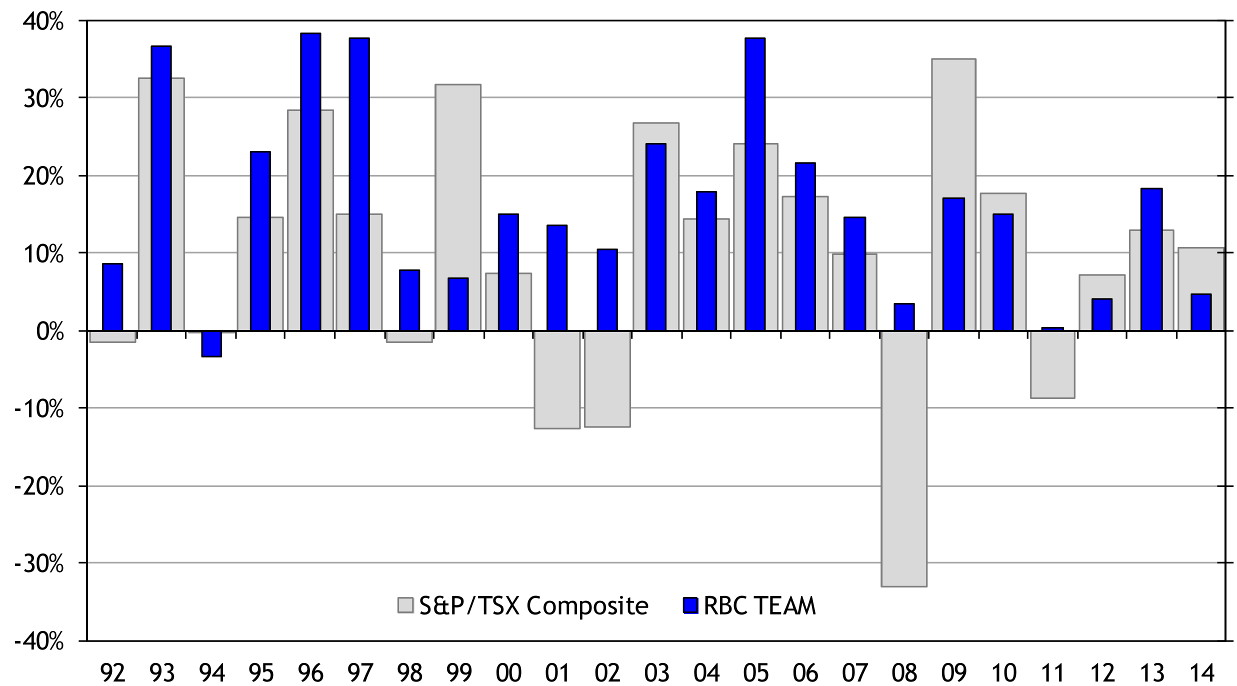
August 24th 2015

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation:	**50%** Equities/ **50%** Fixed Income
S&P/TSX 60 Closing Value:	13,474
TSX 200 Day Moving Ave:	14,776
% Above/Below 200 Day Moving Ave:	**8.81% Below**

Levels for change: 100% stocks - **TSX 15,515** and 100% fixed income – **TSX 14,037**

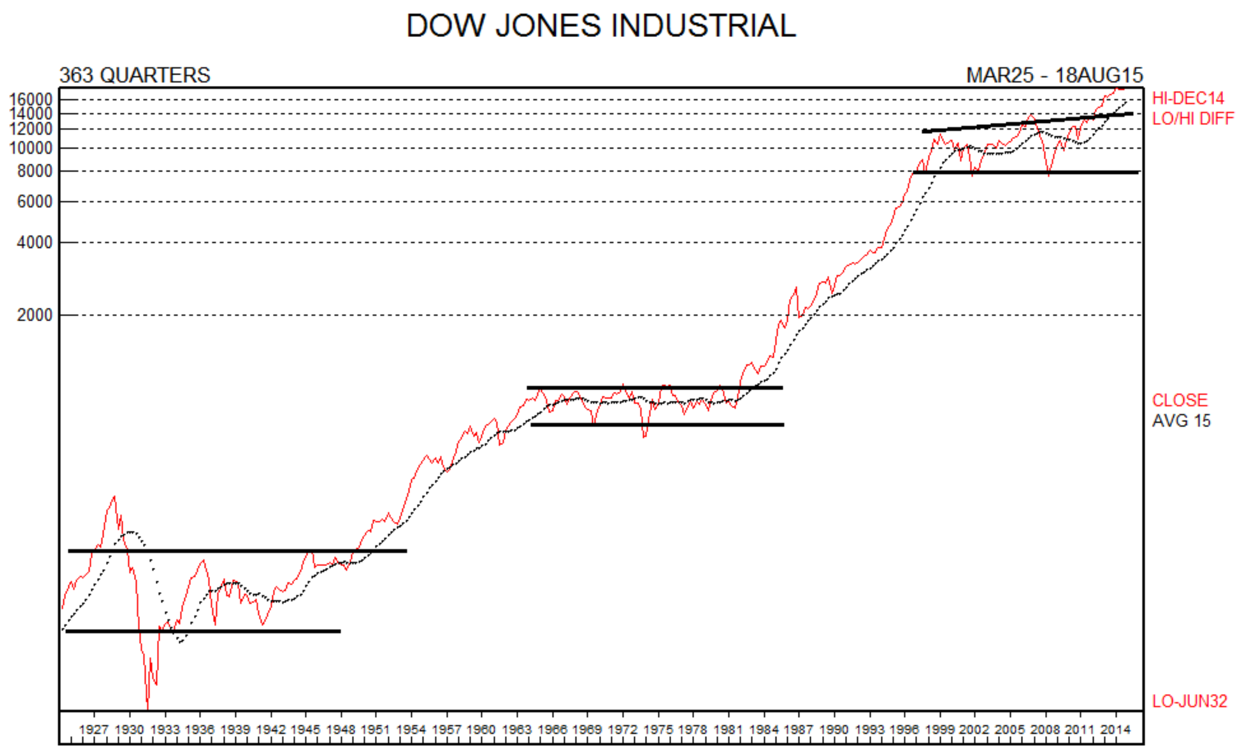
Weekly Quote

"**Canadian TEAM 1 will go from 50% stocks to cash on Aug 31st if the TSX stays below 14,037. US TEAM will go from 50% stocks to cash if the S&P 500 closes below 1969 on Aug 21st**"

Opportunity of a Lifetime – (written prior to large declines Thursday and Friday – weekend updates in red print)

The comment this week is to be taken in conjunction with what I have talked about the past two weeks.

The August 10th comment was focused on "strategy". You need to decide what you believe is REALLY happening and have a plan to invest wisely under those conditions. If you believe we are in a long term BULL market, then invest accordingly. If you believe we are building a third top in a multi-generational BULL market and working our way back to a significant decline, then invest accordingly. **If you're unsure, then you need some *sign posts* that will move you to one side of the fence or the other at some future point.** (Chart below shows past three long duration consolidations in the Dow Jones Industrial Average.)



The August 17th comment was focused on "sign posts". I called them "changing seasons". It is no secret I believe we are at the end of a long BULL cycle and I will continue to build that case as long as the sign posts are there to be seen.

So now I want to present to you what may be the opportunity of a lifetime to build wealth. In this comment I am going to be direct as possible. I cannot mention specific names of companies but, outside of those specifics, I will shoot from the hip.

Let's start with 1998 and the Asian Contagion correction. It was during this crisis that the present day conditions were set up as "expectations". During the 1998 crisis the banks were in trouble due to some large (at the time) bets in the currency markets. The banks were bailed out by the US Federal Reserve and some investors. And there the template was set. What would become known as the “Greenspan Put” became a reality and future expectation!

The Greenspan Put needs to been seen from two perspectives:

- How it works mechanically
- What it is meant to do

How it works is the US FED floods money into the banking system and crashes down interest rates.

What it was meant to do is make any banker with a pulse be able to make money and recharge the bank’s balance sheet. Free money can be invested, even at very low rates of return, to reap handsome returns. (If I wrote any of you a cheque for $1 billion and said you just need to give me the capital back some day in the future when you are ready I’m sure you would figure a way to increase your net worth!)

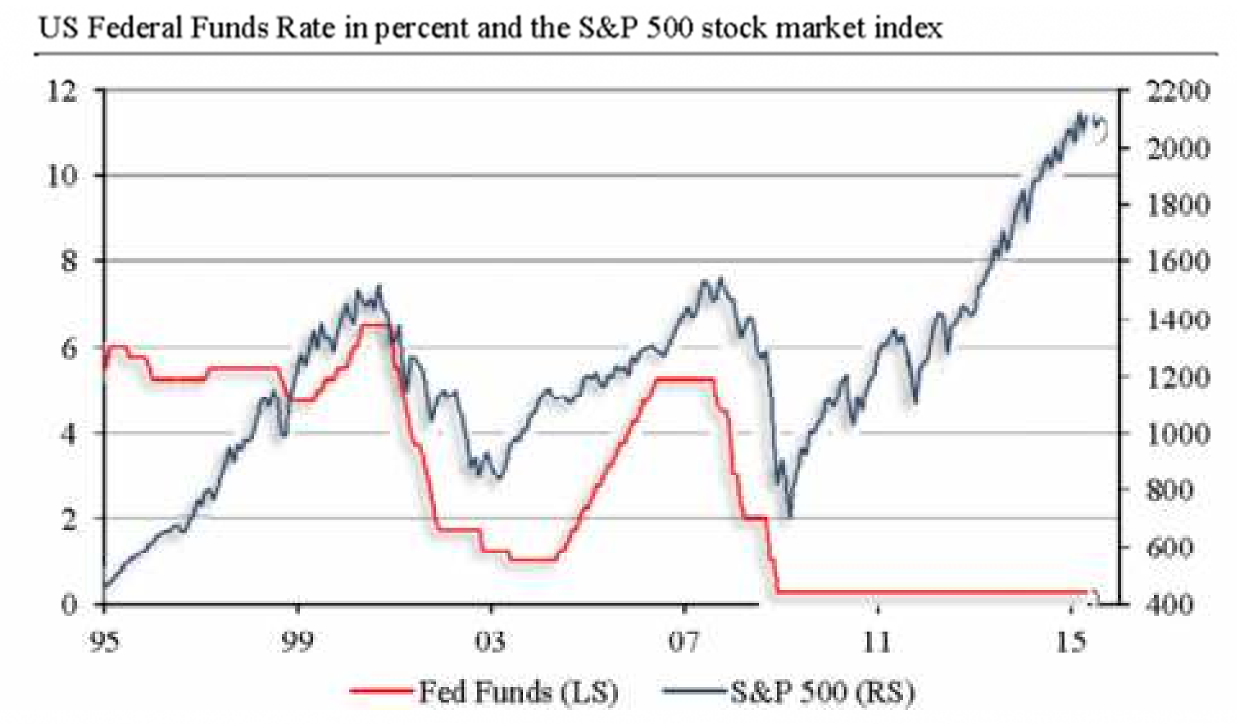
Each episode of crisis carried the “expectation” of FED response during the next 17 years.

The sad reality is the expectation of bail out for banks created a tremendous amount of **“moral hazard**” in the financial system. If a bank knows that it can take large risks and keep the profits if it wins but get bailed out if it loses, guess what it is going to do?. I believe the expression is “heads I win…tails you lose…you wanna flip a coin”?

All of this “banking” has been carried on under a threat of “*if we don’t do this the world will cease to exist*”. This has been another sad set of lies directed out of the banks of the world. History is full of times when banks have gone broke and economies have recovered. What happens…those who made the mistakes pay for their mistakes…others who didn’t make mistakes come in and buy up the solvent assets of the bankrupt mistake makers…the system resets and healthy markets based upon true capitalism recover!

At the same time, when this happens, the present elite lose their status, position…and money. And that was not going to be allowed to happen…**you should never have a situation where the gatekeepers of the system are the same people who stand to gain and lose the most from it!**

But the “Greenspan Put” is losing its magic touch as time goes on. The financial masters have created so much debt that even an additional trillion dollars of manipulation is only a small percentage the global pool of government created liquidity and therefore has little impact on the markets. And that is why interest rates (FED funds rate) has been locked down at zero for 7 years!



Source: Thomson Financial.

When you look at the chart above is it any surprise the US is so afraid of lifting the interest rate off of the zero bound?

So where do we stand now?

My models are mainly showing neutral…but, other than housing/real estate, they are getting weaker. (updated to Aug 21st – models 6 out of 8 screens are now BEARISH, 1 is neutral, and real estate is only viewed monthly so is still positive.)

The past two weekly comments were written to offer support of the long term topping process I believe is taking place…I will not rehash those points here again.

What I want to focus the rest of the weekly comment upon is the incredible opportunity that is coming for investors IF we are in a topping formation.

The defining characteristic of the continuation of the topping process should be the continued deterioration in:

- Lower quality corporate and sovereign bonds. Yields will keep rising on a growing spectrum of issues as the market top continues to unfold.
- Lower quality stocks will continue to be beaten up. The market breadth should get "narrower and narrower."
- Commodities should continue to weaken and gold should outperform oil.

The stock indexes will likely not start to weaken much at first…especially the US indexes. This is because of the corporate buybacks are quite supportive of the largest index components. (Update – obviously this changed last week)

It should be noted that ALL of the above points have started to happen. Not to the extent that the "writing is on the wall for stock prices". The trend is really just taking shape.

The first investment theme to take hold is to make sure your financial life is positioned for a possible continuation of the trends above.

Step one is to make sure your portfolio is in tune with a "neutral" market. In my opinion that requires an investor hold between 50% - 65% of their USUAL stock weighting. (This step should be accomplished already…if you do not feel like you are at this place in your portfolio we need to talk.) Update – for Canada, the portfolio profile is now BEARISH and will adjust at month end if TSX is below 14,037.

Step two is to watch for a real bottom in Gold. Define what that looks like and how you are going to buy into this sector. If we have a real correction that starts BEFORE the FED is able to raise interest rates…Gold will go much higher as central bank credibility is questioned.

IMPORTANT - (A quick side note to central bank credibility. There is a critical moment in time that is on our investment horizon. **If the FED gets locked down in a stock market decline that starts before they can normalize interest rates I fully expect them to announce Quantitative Easing 4 (QE4)**. QE4 is the cornerstone moment in my long term topping expectation. When QE4 is announced I would guess stocks would jump worldwide…but if the FED is losing credibility the bounce would be short lived. And that is where Gold would really gain a bid!) Update – this could be soon.

The financial market behavior around QE4 is absolutely key to getting "the opportunity of a lifetime" correct.

You see; if FED credibility is not lost in the announcement of QE4 and financial assets simply get bought again my targets for the S&P500 go much higher. I could imagine stocks going **up** by 50% in the following year to year and a half. That is why a purely BEARISH perspective on stocks and real estate is so foolish right now.

Why I am writing about these events is because the FED has stated it is going to raise interest rates. That may or may not happen in September. **An interest rate rise is going to drive the US dollar higher in the short term and that is bad for the US in a world trying to drive their currencies lower.** (Look at what Canada is doing for a perfect example!) Update – chances of a September interest rate hike are greatly diminished after last week's stock market turmoil.

The time lag between an interest rate hike in the US and QE4 could be short if stocks and real estate starts to drop because of the higher US dollar that would result from the rate hike.

Strategically, we need to stick to TEAM modelling for stock prices.

Making Sense of Last Week's Decline in Stock Markets

After writing in section one about how a declining stock market actually equates to a long term opportunity for investors that shift their holdings TACTICALLY, I felt it would be appropriate to put last week's decline into historical perspective.

There are a couple of incredibly important themes to identify and understand about the recent global stock market declines.

The table below shows all of the weekly declines of 5% or more since 1980 and how the S&P 500 changed over the following weeks and months.

(go down to next page)

Date	One-Week %	Next Week (%)	Next 4 Weeks (%)	Next 12 Weeks (%)
3/7/1980	-5.95	-1.38	-4.44	4.06
9/12/1986	-7.91	0.67	2.09	8.89
10/9/1987	-5.18	-9.12	-19.50	-20.57
10/16/1987	-9.12	-12.20	-13.11	-13.90
10/23/1987	-12.20	1.44	-2.51	1.54
12/4/1987	-6.83	5.09	10.34	17.21
10/13/1989	-7.01	4.06	1.64	5.57
8/28/1998	-5.00	-5.18	1.71	13.28
9/4/1998	-5.18	3.61	2.95	22.43
10/15/1999	-6.63	4.35	11.92	15.56
1/28/2000	-5.63	4.72	-1.97	5.47
4/14/2000	-10.54	5.75	4.75	9.02
3/16/2001	-6.72	-0.93	2.87	9.95
9/21/2001	-11.60	7.78	11.15	16.29
7/12/2002	-6.84	-7.99	-1.38	-13.11
7/19/2002	-7.99	0.60	9.56	-1.47
1/18/2008	-5.41	0.41	1.87	0.58
10/3/2008	-9.38	-18.20	-11.87	-20.60
10/10/2008	-18.20	4.60	3.53	3.62
10/24/2008	-6.78	10.49	-8.75	-3.04
11/14/2008	-6.20	-8.39	0.74	-0.54
11/21/2008	-8.39	12.03	10.98	3.35
2/20/2009	-6.87	-4.54	-0.20	14.65
3/6/2009	-7.03	10.71	23.28	34.50
5/7/2010	-6.39	2.23	-4.14	-0.84
7/2/2010	-5.03	5.42	7.73	12.33
8/5/2011	-7.19	-1.72	-2.12	7.15
9/23/2011	-6.54	-0.44	8.96	7.32
8/21/2015	-5.69	?	?	?
	Average	0.50	1.65	4.95
	Median	1.05	1.79	5.52
	% Positive	60.7%	60.7%	71.4%

The obvious message to the table is that USUALLY a bounce is forthcoming after a 5% downward move in the S&P 500…that is the good news!

The bad news is you need to notice the years that the declines of 5% or more in a week took place. Please notice the common theme to those years…most were true BEAR market years! (exceptions were 1986 and 2010). The average peak to trough decline of those BEAR markets were 38% and lasted an average of 11 months.

Again, this is why a TEAM strategy is key at this point in time. **If the stock markets cannot regain their BULLISH trends then TEAM will gracefully get out of the stocks for what we would likely be a BEAR market.**

The other key to the TEAM strategy. It will let a stock market decline run its course before attempting to buy stocks back.

I will comment more about “our hopeful bounce” next week.

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.