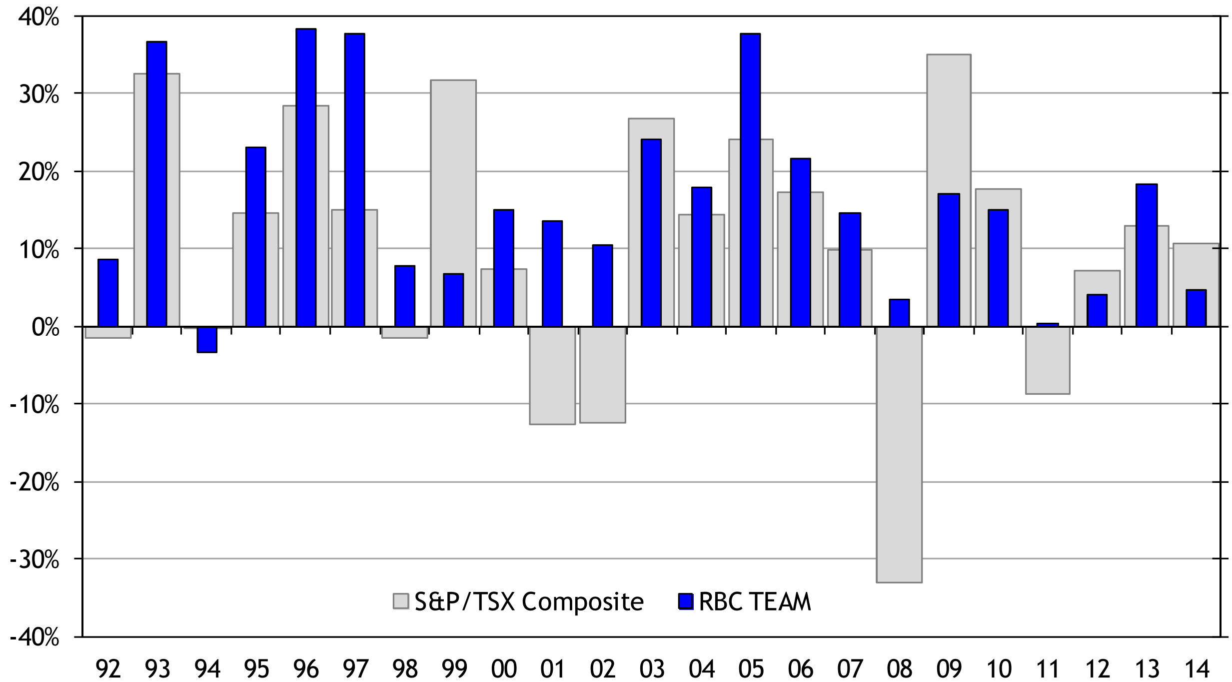
August 17th 2015

"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: 14,278
TSX 200 Day Moving Ave: 14,795
% Above/Below 200 Day Moving Ave: **3.50% Below**
Levels for change: 100% stocks - **TSX 15,539** and 100% fixed income – **TSX 14,060**

Weekly Quote

"The fact that an opinion has been widely held is no evidence whatever that it is not utterly absurd; in the view of the silliness of the majority of mankind, a widespread belief is more likely to be foolish than sensible."

- Bertrand Russell, British philosopher, logician and mathematician.

"A Change of Seasons"

The number of responses to the last weekly comment was a bit disappointing. Yes, we are in August and there is a trend for investors to "*just sit and wait*." I get that…but some of the points covered in the August 10th weekly comment are important for investors to sort out BEFORE another downturn takes hold in the markets and economy.

Please realize, I am not saying a downturn MUST happen. **What I am saying is there is a clear "*change in season*" as to how economics are presently playing out**. It is no different than when you wake up on a mid-August morning on what is going to be another beautiful day. Yes, the day will be awesome just like a beautiful July day, but the morning feels completely different …and you notice! You also know a change in the season is right around the corner!

One of the greatest opportunities in history to profit from financial fluctuations may be coming. Central banks are running out of ammunition to defend market turmoil. When the central banks act…the effects are not nearly as strong as they were 6 years ago.

At the same time, investors are more and more complacent. Nobody really wants to act because interest rates are so low. The traditional safe havens of cash, AAA quality bonds, and gold have no appeal today.

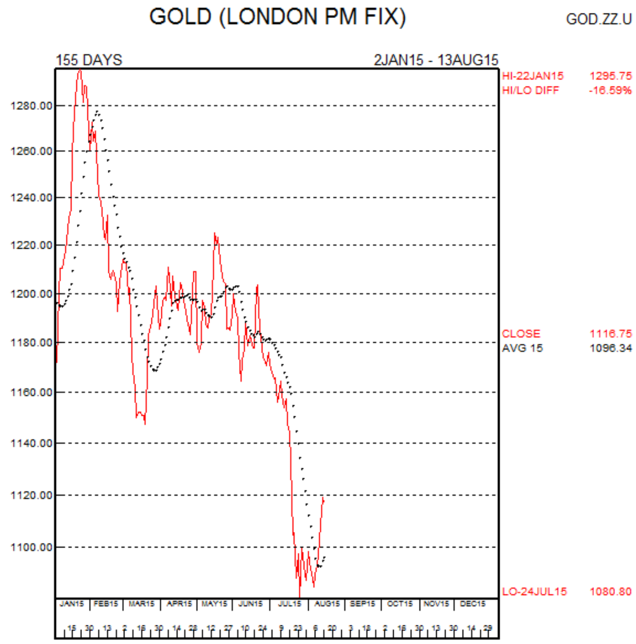
So we all sit and watch. Or we join the crowd and jump into Netflix or Facebook or we just go out and buy a new condo or house. Those "trades" are working right?

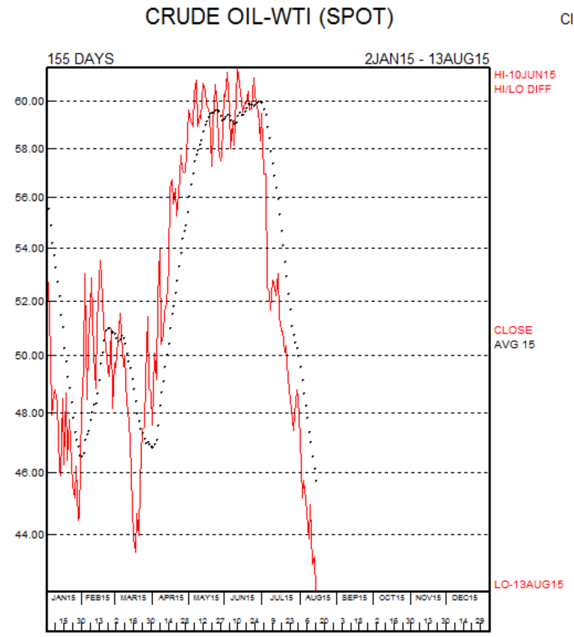
It is simply time to gather your thoughts and make sure your plan fits your risk tolerance. As fund manager Doug Kass loves to say, "Risk happens fast!" Below, I continue to make the case for "a change in seasons" in the investment markets. It again is a short comment.

Also, if you did not get a chance to read the comment last week…please take a moment to review it. The comment is short and is meant to encourage you to think "strategy".

"Gold Showing More Signs Of Life"

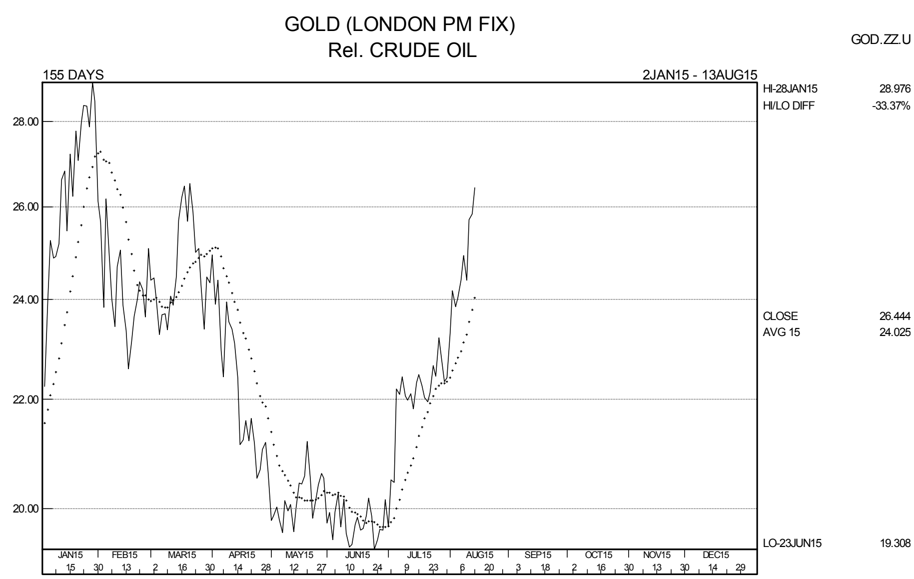
Below is a chart of Gold and Oil side by side. Both have been taken out back of the woodshed and beaten in 2015. Questioning "why" this has happened has been asked soooo many times, I can hardly stand to even think about it anymore. It just has…





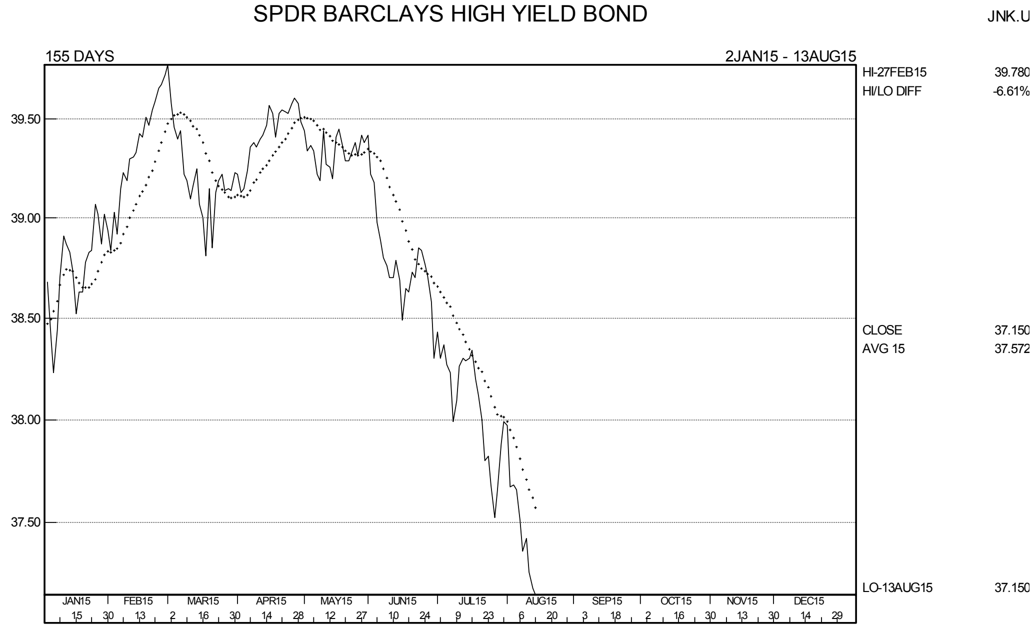
But in the past two weeks, Gold has started to try and bottom again…and it is trying while Oil is still getting smattered!

This is exactly one of the “changes in season” I am referring to above. To make the point even better, the chart below graphs “Gold relative to Oil”.

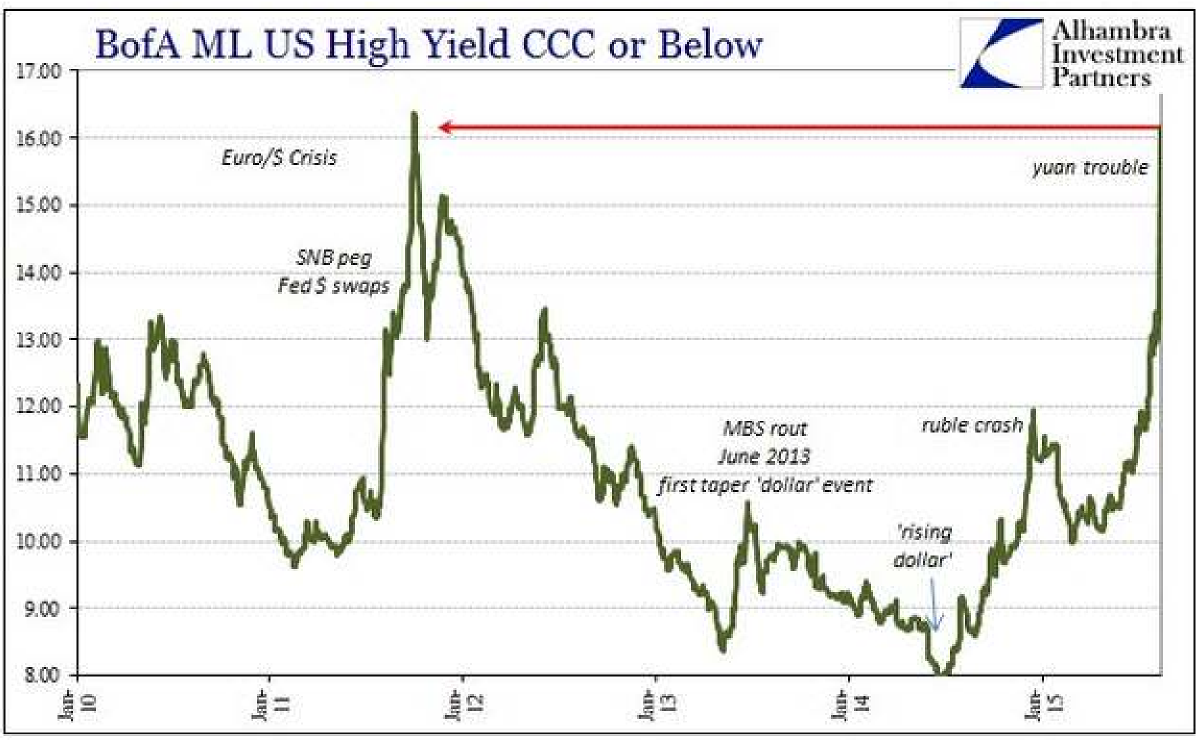


When stuff like this happens I take notice. It may mean nothing…or it may mean a lot. But we need to notice. If the trend continues it would argue for lower asset prices and more economic turmoil. We will continue to watch this relationship.

Another “change in the season” shows up in the junk bond markets. The graph below is the US junk bond exchange traded fund (ETF).



This chart shows the jump in the lowest quality portion of the junk bond curve in yield. Note, it is back to levels seen during the early Euro crisis (The “PIIGS fest”)



The trend downwards in the value of the “junk bond etf” signals distress setting into the poorer quality bond markets. (As far as I can see, none of my clients have any exposure left to these types of bond markets anymore.)

Just think about how many trillions of dollars’ worth of these junk bonds has been spewed out by companies during the last 7 years. It is mind-boggling…and every one of them must be owned by somebody at the end of the day!

Finally, (to keep this short) there was the currency devaluation by China last week. The question that needs to be asked is “why now?”

1. If the devaluation is in response to an expanding decline in Chinese economic conditions, then commodity prices are still going to be hurting for a while longer and financial markets have more pain to go.
2. If the devaluation is meant more as an “insurance policy” against future turmoil, then it is not as big of deal to worry about.

That Gold/Oil ratio outlined above should go a long way in helping us decide what is going on in China. If condition 1 is true…Gold should rise and Oil sinks. If condition 2 is the right one, Oil should start to recover vs. Gold.

In summary, I believe last week’s editorial encourages the reader to ask the most relevant question applicable to the present economic and financial situation. One of the most important roles I fill for clients is that of “strategist”. **But not my strategy…your strategy.** You see, I try to make sure your strategy lines up with your objectives AND your risk tolerances!

As always, feel free to touch base.

“A Little Fun to Close the Comment”

I loved this comment taken from an email sent in on Bill Fleckenstein’s daily site:

“*Yesterday at Delmar a horse called I Buy Gold won and paid $63 to win. I bet another horse in the race because there was not that much to like about I Buy Gold, but I did put 2 to win on him just because… maybe there is message here, maybe there isn't but then i looked at his parents and his mom was called In Due Time and his dad was called Time for A Change. Yep, I got shivers too! Prescient, don't ya think?*”

Nick comment – That was the best of the week!

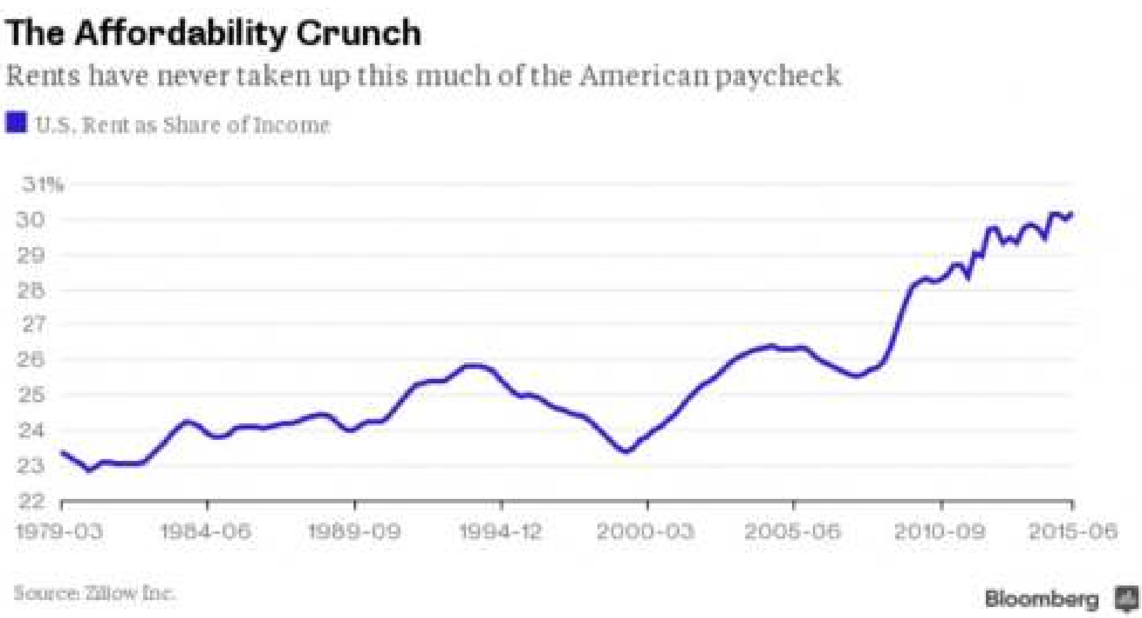
“Bull Market in “Serfdom”

An article talking about the rental conditions in America crossed my desk. I found it interesting and thought provoking. The paragraph below shares the theme of the article:

Americans living in rentals spent almost a third of their incomes on housing in the second quarter, the highest share in recent history.

Rental [affordability](#) has steadily worsened, according to a new report from Zillow Group Inc., which tracked data going back to 1979. A renter making the median income in the U.S. spent 30.2 percent of her income on a median-priced apartment in the second quarter, compared with 29.5 percent a year earlier. The long-term average, from 1985 to 1999, was 24.4 percent.

While mortgages remain relatively affordable, landlords have been able to increase rents because [demand](#) for apartments remains strong. The U.S. homeownership rate fell to the lowest level in almost five decades in the second quarter, ***as strict lending standards and tight inventories keep many families in the rental market.***



What is thought provoking about this rental data is that it is happening with the lowest interest rates in history. If ever people should be able to afford to borrow money…it is now!

Just another crazy data point in today's financial alphabet soup.

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.