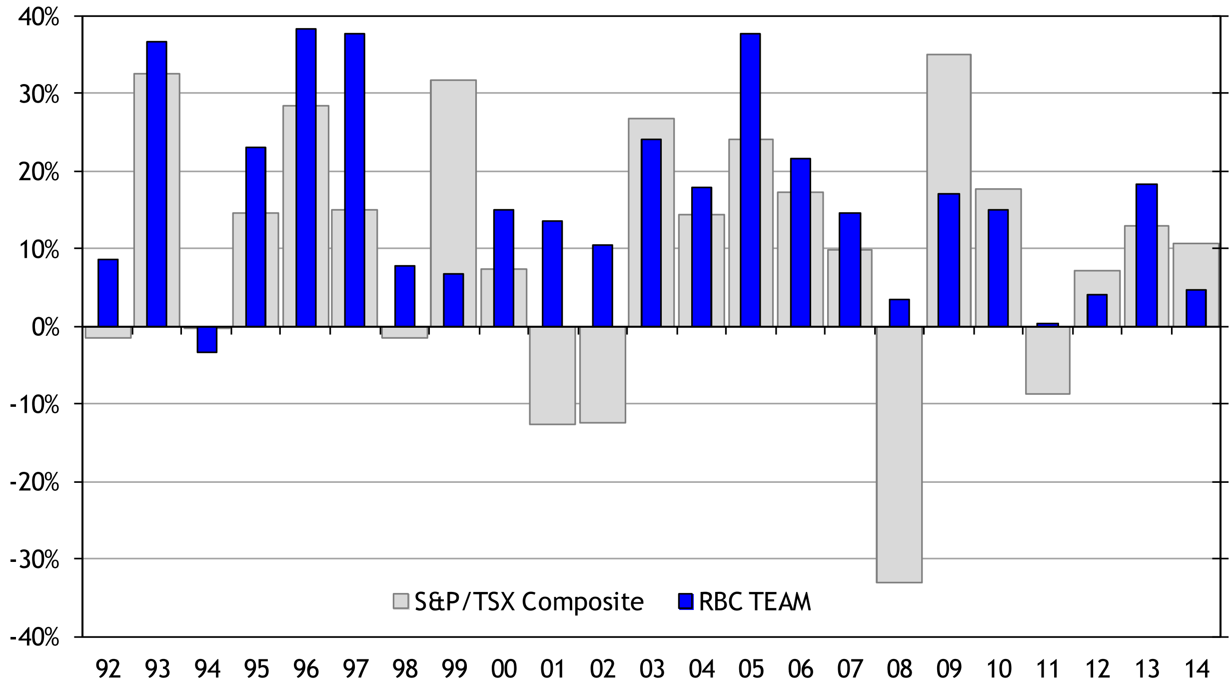
August 10th 2015

"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: 14,303
TSX 200 Day Moving Ave: 14,795
% Above/Below 200 Day Moving Ave: **3.33% Below**
Levels for change: 100% stocks - **TSX 15,539** and 100% fixed income – **TSX 14,060**

Weekly Quote

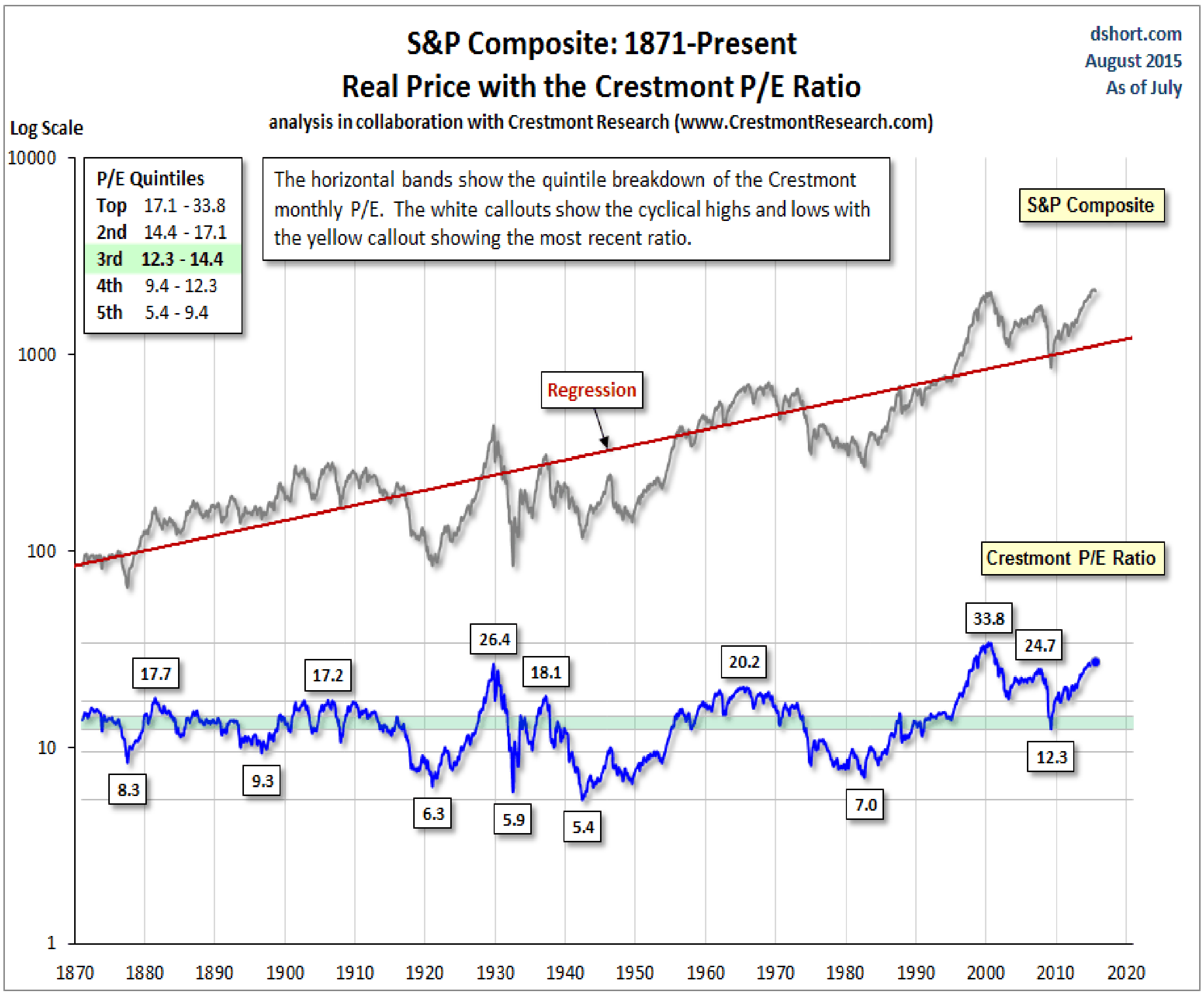
"You no longer play for a city anymore; you're playing for an entire country".

– brother of David Price, the new Toronto Blue Jay ace pitcher… #cometogether

S&P500 Fundamental Valuation Analysis

These charts are not new to longer term readers. I have used them in the past. But it has been a while so let's take a peek again and see if anything has changed.

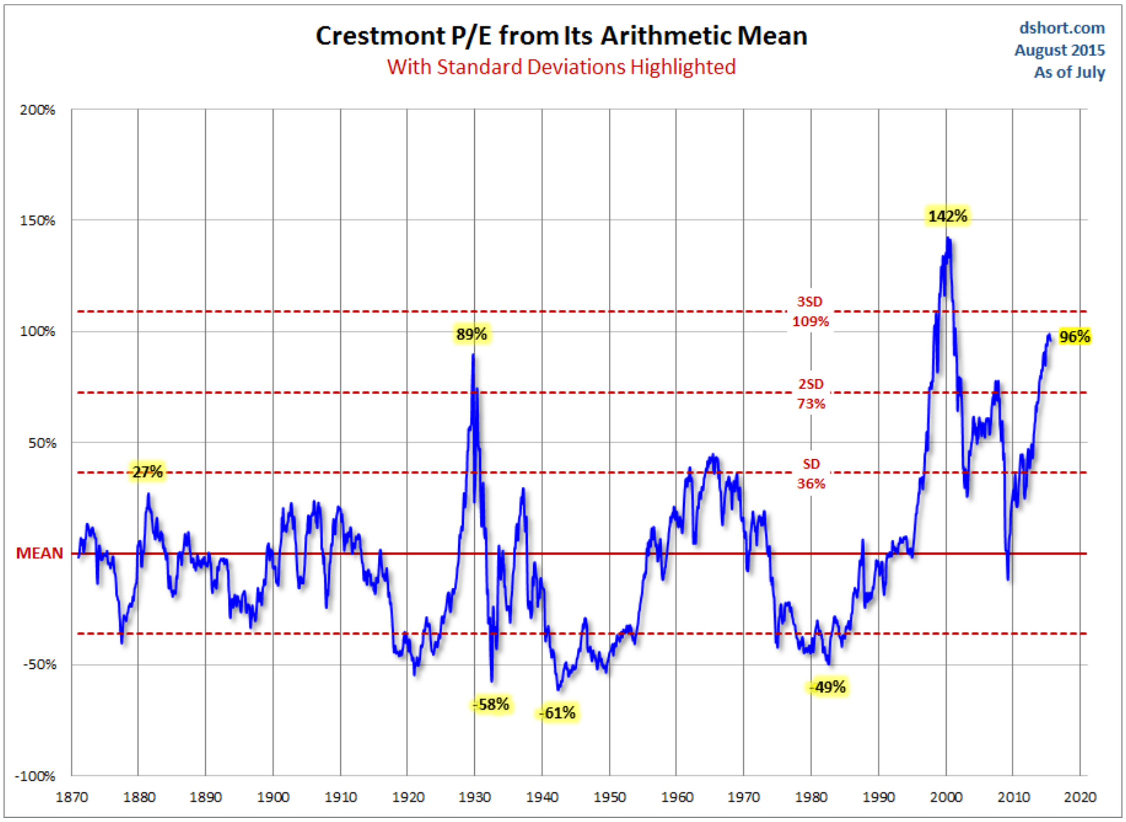
Chart 1 shows the log scale valuation of the S&P500 on the top graphic and the corresponding Price/Earnings (P/E) ratio to go with the S&P500 valuation. (The higher the P/E ratio…the more expensive the stock market is considered.)



To make the data even easier to understand, Doug Short (dshort.com) has added a red "regression" line on the S&P500 chart. The regression line represents the mid-point of the long term uptrend. Notice how the stock market tends to oscillate on each side of the red line over the long term.

Clearly, on a long term historical basis the S&P500 is relatively expensive by the P/E ratio measure. That is the main take away from the first chart.

The second chart gives us a bit more feel for “how expensive” the S&P500 is at this time. Doug Short has added standard deviation analysis to his chart below. Two things stand out on this chart:

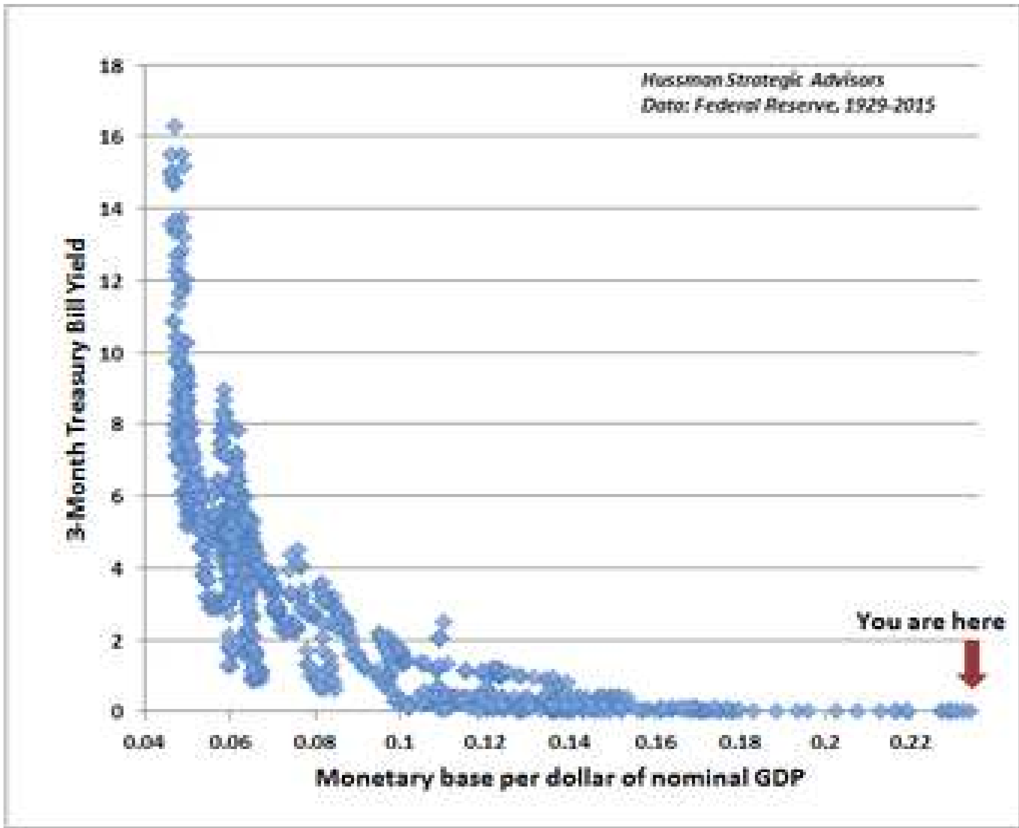


1. The most obvious, the S&P500 is at the second most “expensive” level relative to its own trend line in the past 135 years.
2. Even at the bottom of the 2009 decline, S&P500 stocks only just nudged below their “Arithmetic MEAN”.

What the chart is saying is, as bad as the 2008-2009 decline was, we never really got to a point where the S&P500 was CHEAP!

Before we jump ahead to apply what we see above to your portfolio I have one more chart to show you. Again, I have used this before and it just keeps getting better as each quarter goes by.

You are looking at a plot of the “*monetary base divided into US GDP*” on the X axis graphed against the “US 90 day T-bill yield” on the Y axis. The chart has a dot for every quarter since 1929.



The conditions graphed above cannot happen naturally. The central bank must manipulate the bond markets to create these conditions. **<u>The point of showing the chart is to understand how manipulated the present condition is!</u>**

So what Nick…stock markets are expensive? They can stay expensive for a long time…they can get more expensive. **This doesn't change the reality that if I sell my stocks that pay great dividends that I get next to nothing on my cash!**

Each week I agree with every person I talk to who makes the above point. It is absolutely true. **What is equally true is that EVERYBODY figures "they" are going to be smart enough to get out when the reset button is hit…and we know that each and every share has to be held by "somebody" at the end of each trading day making it is IMPOSSIBLE for EVERYBODY to get out!**

So what is the balance investors need to reach?

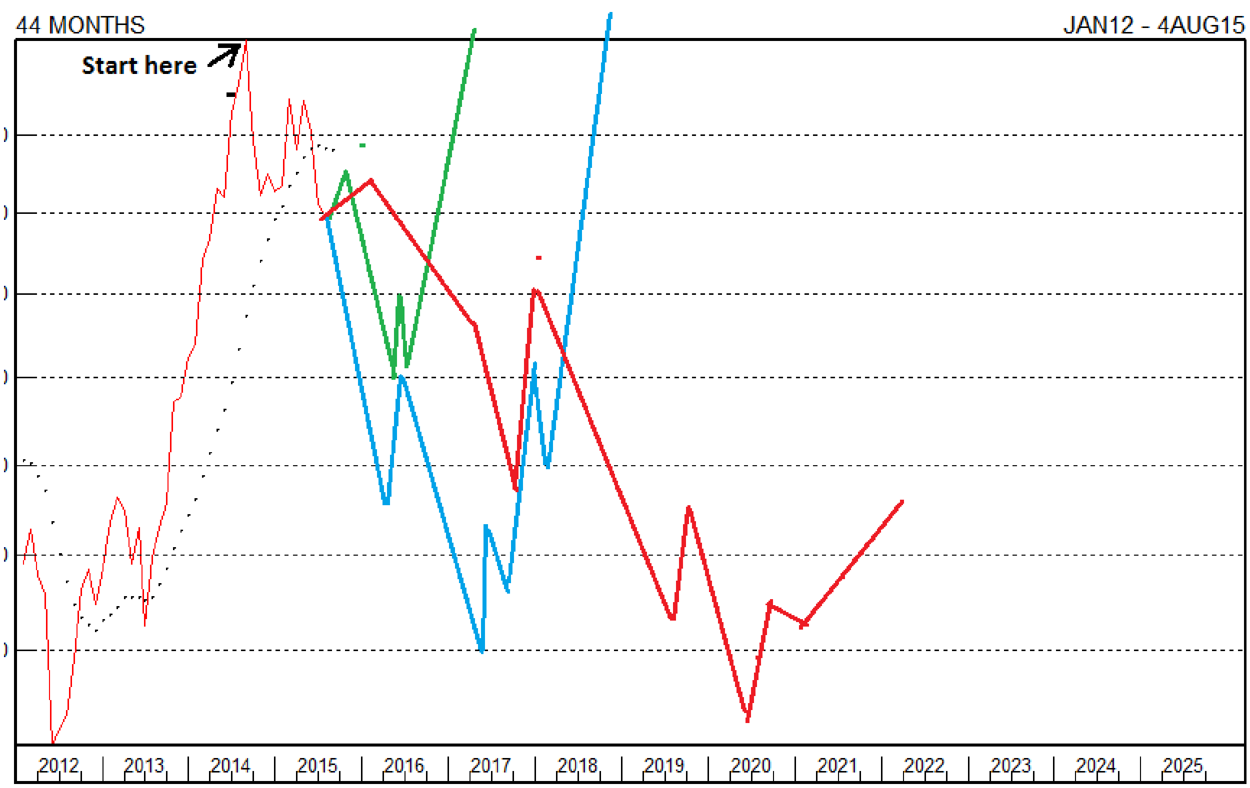
Truly, it is a personal decision based upon really knowing your own "investment personality". The question I constantly pose to people is HOW LONG AND HOW DEEP OF A DIP IN STOCK MARKETS ARE YOU WILLING TO LIVE THROUGH?

The chart below is completely hypothetical but forces you to ask yourself some great questions about how you feel about your stock market investments.

The first “green” line depicts an **“average”** correction for the stock market. Let’s assume it represents a 25% dip from the “Start here” point and a total length of time 30 months to make a new high again. The BIG question**: How comfortable would you be to hold your equity positions through this type of a correction?**

The second “blue” line represents what I consider to be “**more likely**” during the next BEAR market: A 40% correction that takes just over 4 years to get back to its old highs. Same question: **How comfortable would you be to hold through this type of a correction?**

The “red” line represents a scenario like what happened in Japan in the late 1980s. A long term, greater than 50% correction! Not a high probability…but one that is growing due to the stupid central bankers around the world!



You see, the tough part of investing is we have no idea what type of correction (if any) we are entering. Therefore, you MUST have your strategy mapped out BEFORE something happens.

Personally, I have always been more comfortable using methods akin to the TEAM strategy for entering and exiting investments. **It eliminates the potential for the “big mistake”.**

If this section made you think about your own investment philosophy…then it accomplished its goal. If you want to chat about what you are thinking about…please give me a call.

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.