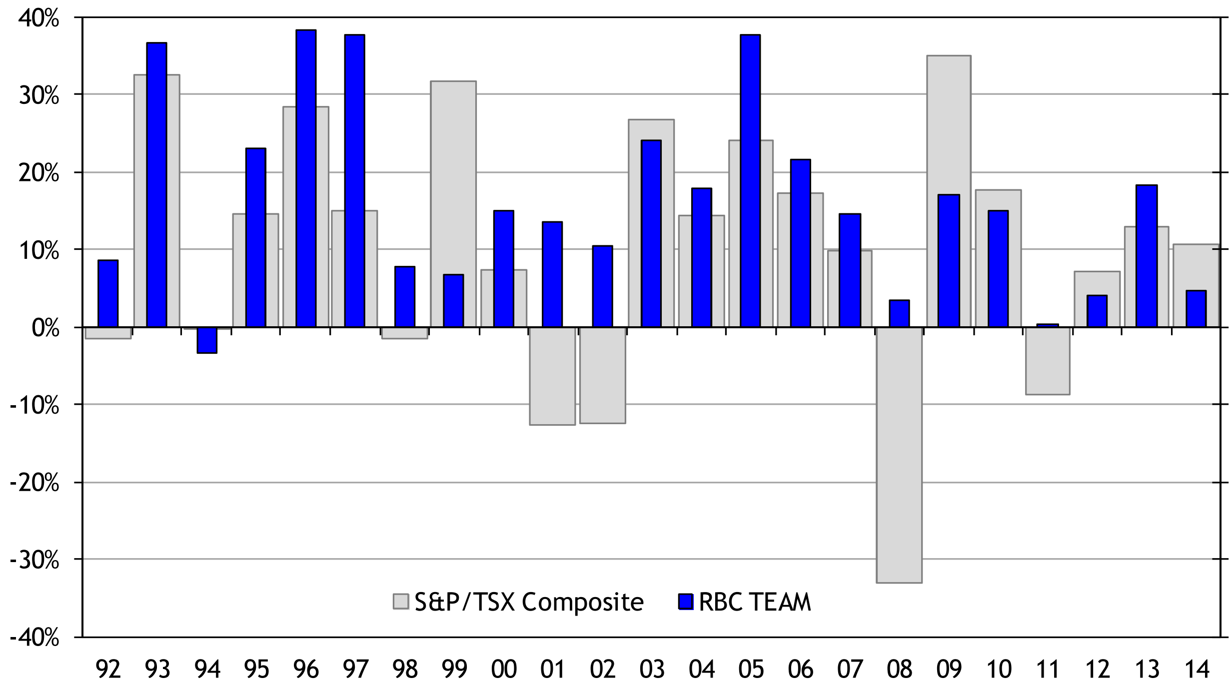
August 3rd 2015

"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: 14,482
TSX 200 Day Moving Ave: 14,795
% Above/Below 200 Day Moving Ave: **2.11% Below**
Levels for change: 100% stocks - **TSX 15,539** and 100% fixed income – **TSX 14,060**

Weekly Quote

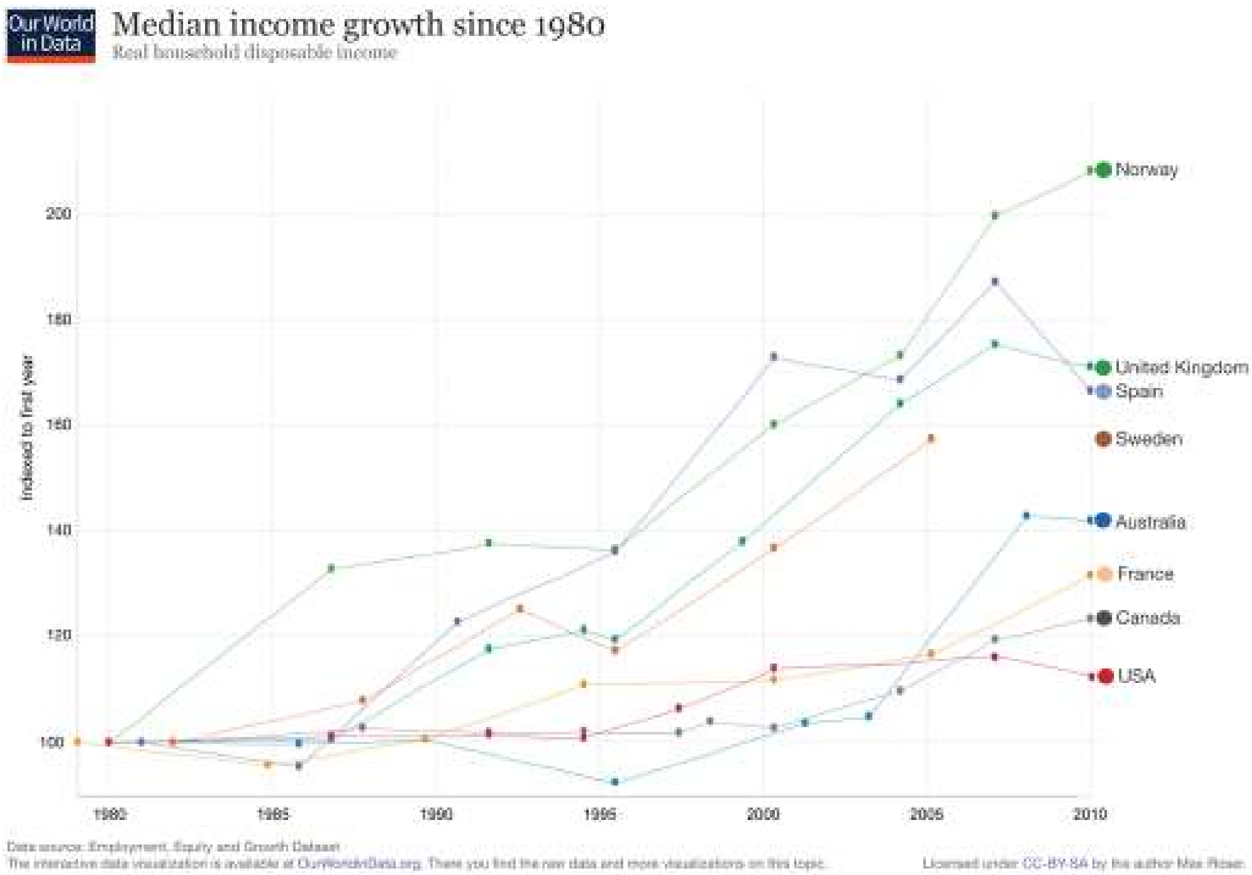
"Competition for existing houses on the market remained stiff last month, as low inventories in many markets pushed prices above some buyer's comfort levels."

Lawrence Yun, Chief Economist for the U.S. National Association of Realtors

Nick comment: More than comfort level…how about affordability? (see income stats below). A little lift in interest rates might draw out some "inventory"…Hmmm?

<u>"Income Growth"</u>

In keeping with the quote of the week, I wish I could send Mr. Yun a copy of the above graph. It would help him understand why **the number of pending home sales is drying up as the average price goes higher.**

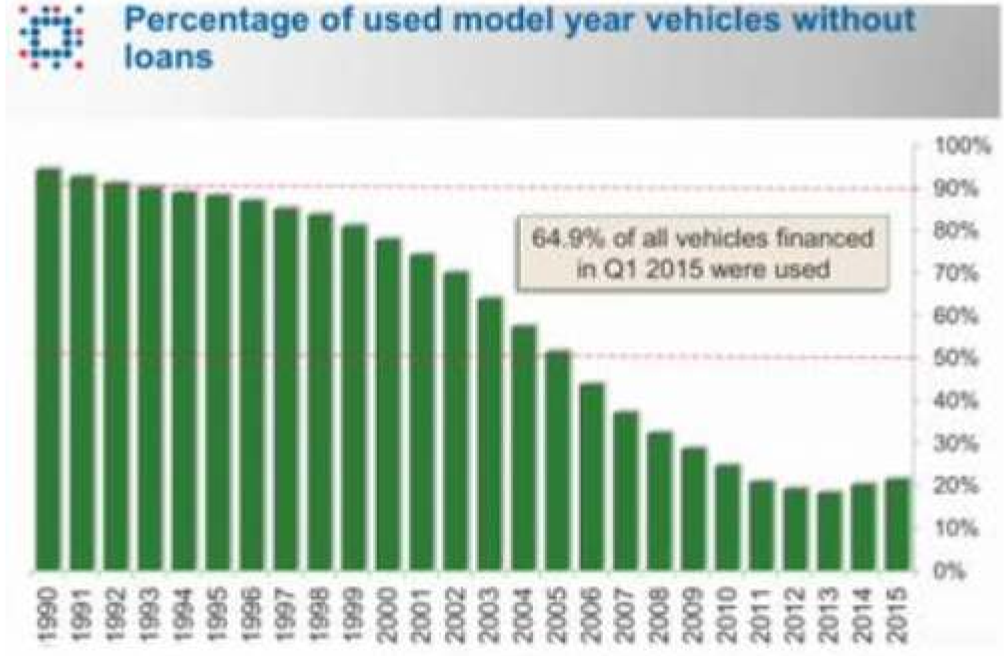


Notice, US wages have actually stayed in decline since the "great recession" began. (Flash…from July 31st 2015…"*The quarterly increase in US wages was just 0.2% - the expected number was 0.6%. This is the weakest US wage growth since records began in 1982.)*

There is really not much for central bankers to be proud of in all of this data. The middle class continues to have serious challenges in the labour markets.

The low interest rates let people refinance their assets and buy new "stuff" cheaply, but the song remains the same when it comes to income.

Actually, people can finance a lot of different assets today when compared to the past. The graphic below is quite astounding…it shows the growing number of people financing "used" vehicles.



I guess we shouldn't be surprised. Assets are assets…if it has some equity…and it can be bought or sold…it can be financed or "equity drawn-down" upon.

Low interest rates are the common denominator to all of this financial insanity. People are not going to all of a sudden "get financial religion" and stop borrowing if our governments and central banks keep interest rates as low as they are and they still have access to cheap money. The longer interest rates stay low…the harder it will be to ever raise them again.

Last week Janet Yellen of the US Federal Reserve intimated that a September increase in the US discount rate by a measly, little 0.25% is not going to happen. REALLY????

So, that leaves us in the same place we have been for the past 7 years. No change in the forecast.

We need to watch carefully to see if asset markets can hold onto the small gains made since the FED announcement on Wednesday, July 29th. The FEDs impact on markets is clearly shrinking but it is still there.

We watch with interest to see if that shifts.

Stocks, Bonds, Oil, and Gold

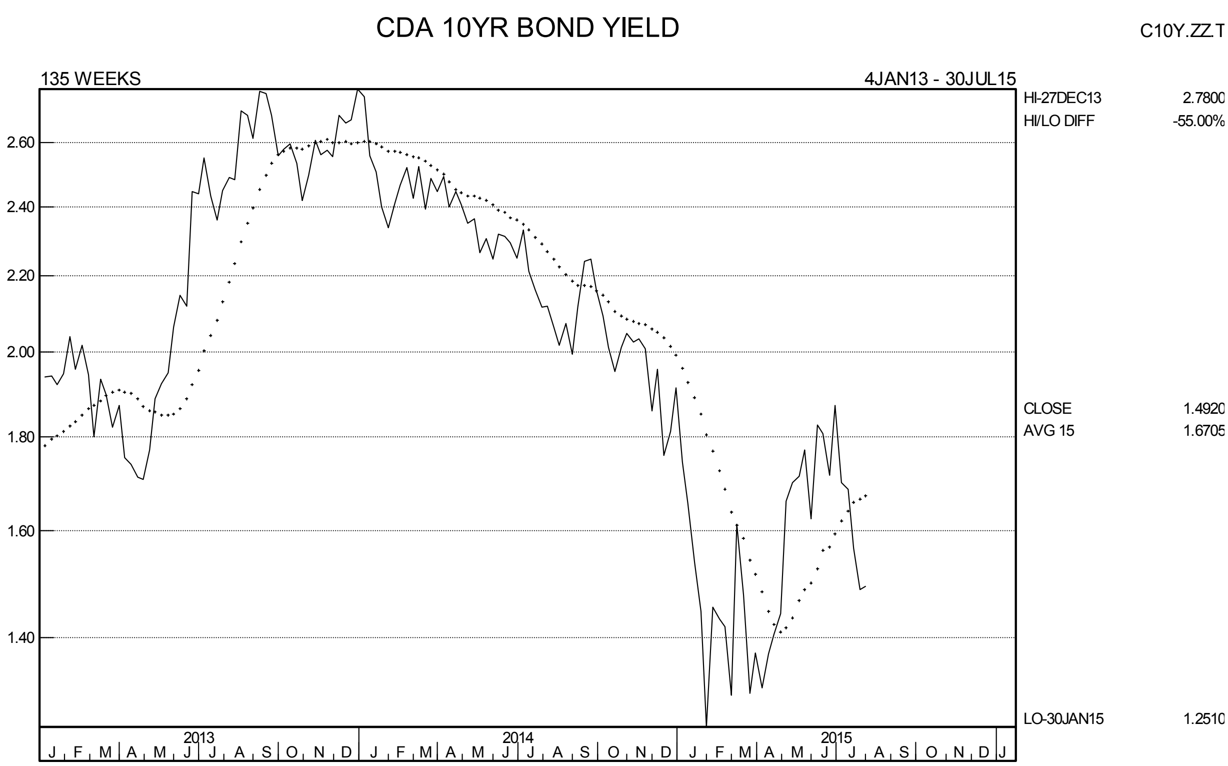
Stocks – As the US FED stepped away (again) from a firm “lift off” date for interest rates markets took their cue to go higher. Banks and utilities bounced moving the TEAM Model away from a SELL signal talked about last week. The small bounce in commodity stocks also helped support the TSX in Canada.

The only comment I would add is that the bounce was pretty minor. I mean, we only got 300 points on both the TSX and the Dow Industrials out of significant US FED shift. A few years ago it would have been worth more like 1000 points for both. (Granted, we are at higher levels today in the US.)

China and all of its government manipulations had a muted response on its stock markets last week too.

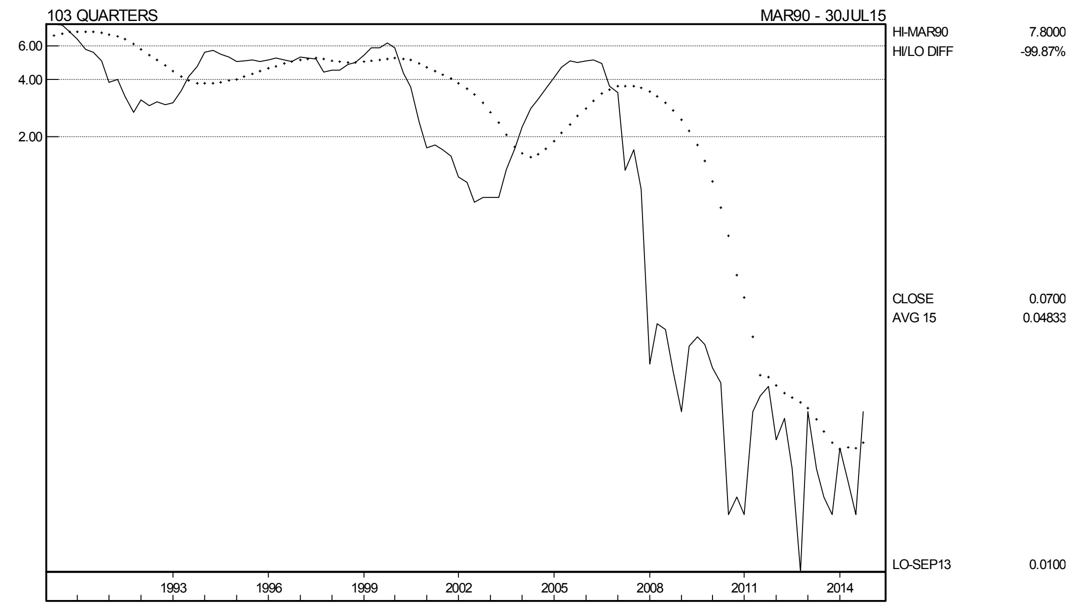
Some stocks are catching my attention once again. The bounce in the Canadian banks really has my attention. Let’s see how it holds over the month of August. If we get a nice hold in the Canadian financials it may be enough to start a new uptrend in Canadian stocks…we watch.

Bonds – Bond yields in Canada were quite happy with the weak economic figures out of the US…and ecstatic about the near zero wage growth! The 3 year chart below of the Canadian 10 year bond reminds me of a hospital patient with no pulse.



Heck, if the Canadian 10 year bond doesn't make you feel "*pulseless*" then check out the US 90 day T-bill rate…been "*dead on the table"* for 6 YEARS! (Note: the 90 day T-bill yield has not been above 0.19% for 6 years.)

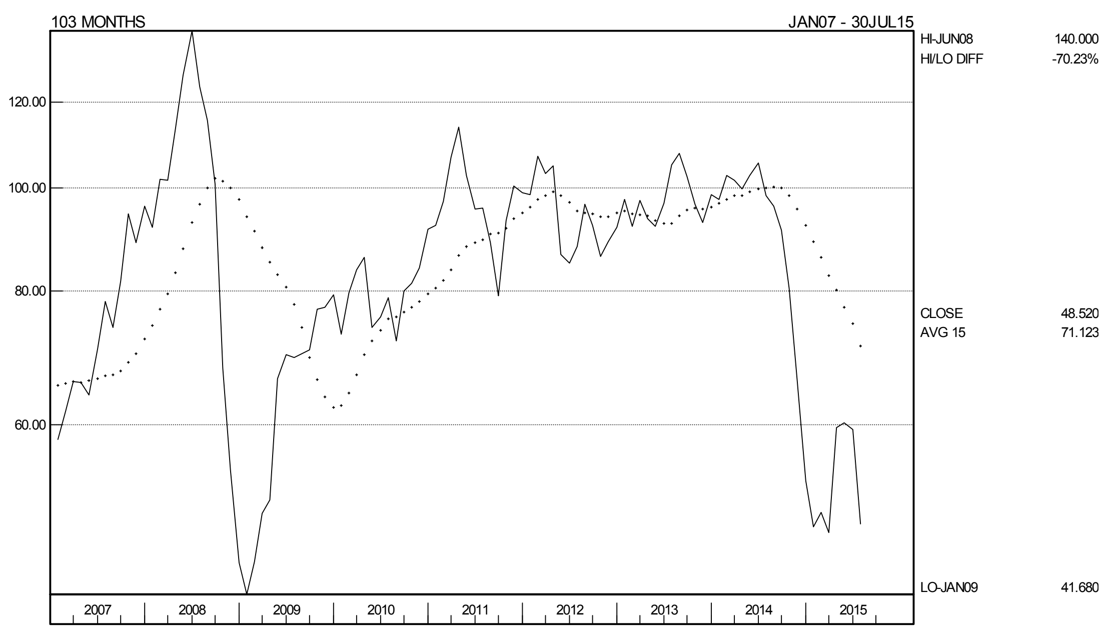
US 3-MONTH T-BILL USI.ZZ.U



Let's move on to something more interesting.

Oil – The situation in the oil markets is becoming "the key" for the Canadian economy…and I might argue, for our upcoming election.

CRUDE OIL-WTI (SPOT) CRU.ZZ.U



The chart above tells us an interesting history about the past 7 years. The “big crash” in oil in 2008 is the standout on the chart, but I find the action in late 2014 and 2015 more disturbing.

Here is why: **The recovery in 2009 was based on massive “Quantitative Easing” initiatives, the crashing down of interest rates, and a lot of “hope” that the global central banks new what the hell they were doing**. The “V-bottom” recovery is a pure reflection of those facts. But today, we still have lots of QE and crashed down interest rates! (and Central bank hope…yet it does seem to be fading.) But oil prices show no sign of recovering. So how do the central banks get oil to stabilize now?

Well, the Central banks have little they can add to this story. Yet I can think of one way…war in the Middle East. And the Obama-driven Iran agreement certainly creates more “discomfort” in that region of the world than there was even 3 months ago. (I have read Twitter accounts on “Debka” – the Israeli news agency – that Israel would consider a “first strike” in Iran.)

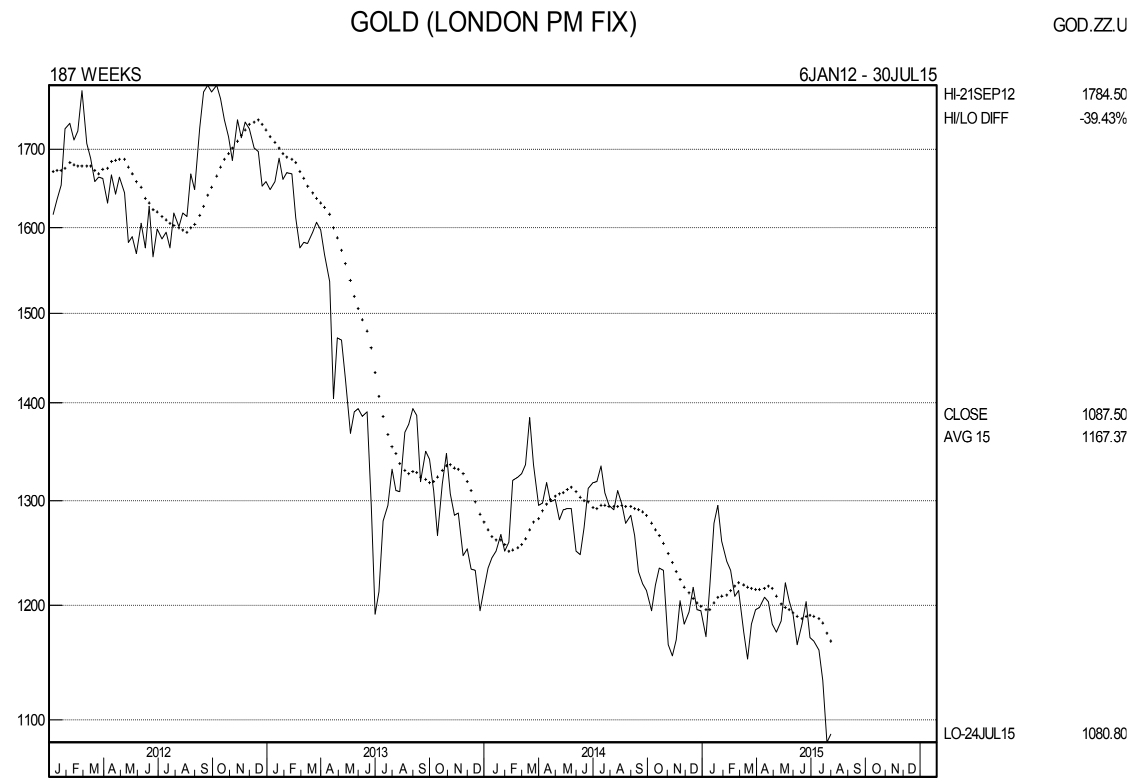
Without something exogenous like a war…oil looks very soft. Be careful around the oil names. There are some trades to be had, but I would be wary of long term commitments to the names right now.

Gold – Wow…do I ever hesitate to write about gold.

If you had pulled me directly out of 1995 and dropped me into 2015 and I had no idea what had happened in between…AND you told me about QE, low interest rates, governments buying stocks, the crazy amounts of debt, etc…AND then said, what do you think Gold is trading at in US dollars? My guess would have been a very high number!

So my only comment on Gold is going to be technical in nature. When I look ONLY at the chart of Gold I have no reason to buy the yellow metal of kings. There is no sign of a “bottom” on the chart.

I can make a decent argument that the chart looked like it was building towards a bottom (before the last breakdown) but that is as optimistic as I can be.



Gold would need to close above the $1225 level in US dollars to really peak my interest as a longer term hold for new money here. I still believe Gold has a massive rally in front of it…that day will come when people see the global Central Banks for the frauds they truly are.

RBC Forecast for Interest Rates and USD/CAD

The RBC forecasts have been looking for interest rate increases for quite some time. Obviously, that has not occurred.

I include them more as "food for thought" than any expectation of them being correct.

(Please scroll to bottom of page)

Market Forecast Summary:

Canadian Rates & Ccy Forecasts	Spot	15Q3	15Q4	16Q1	16Q2
Forecasts as of Jul 2015, % except for USD/CAD					
Policy Rate	0.50	0.50	0.50	0.50	0.50
GoC 2y	0.40	0.50	0.60	0.75	1.00
GoC 5y	0.74	0.90	1.15	1.50	1.70
GoC 10y	1.41	1.80	2.10	2.30	2.50
GoC 30y	2.10	2.50	2.75	2.95	3.10
USD/CAD	1.303	1.31	1.30	1.29	1.28

Canadian Curve Forecasts	Spot	15Q3	15Q4	16Q1	16Q2
Forecasts as of Jul 2015, bps					
2s5s	34	40	55	75	70
2s10s	101	130	150	155	150
2s30s	170	200	215	220	210
5s10s	67	90	95	80	80
5s30s	136	160	160	145	140
10s30s	69	70	65	65	60

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.