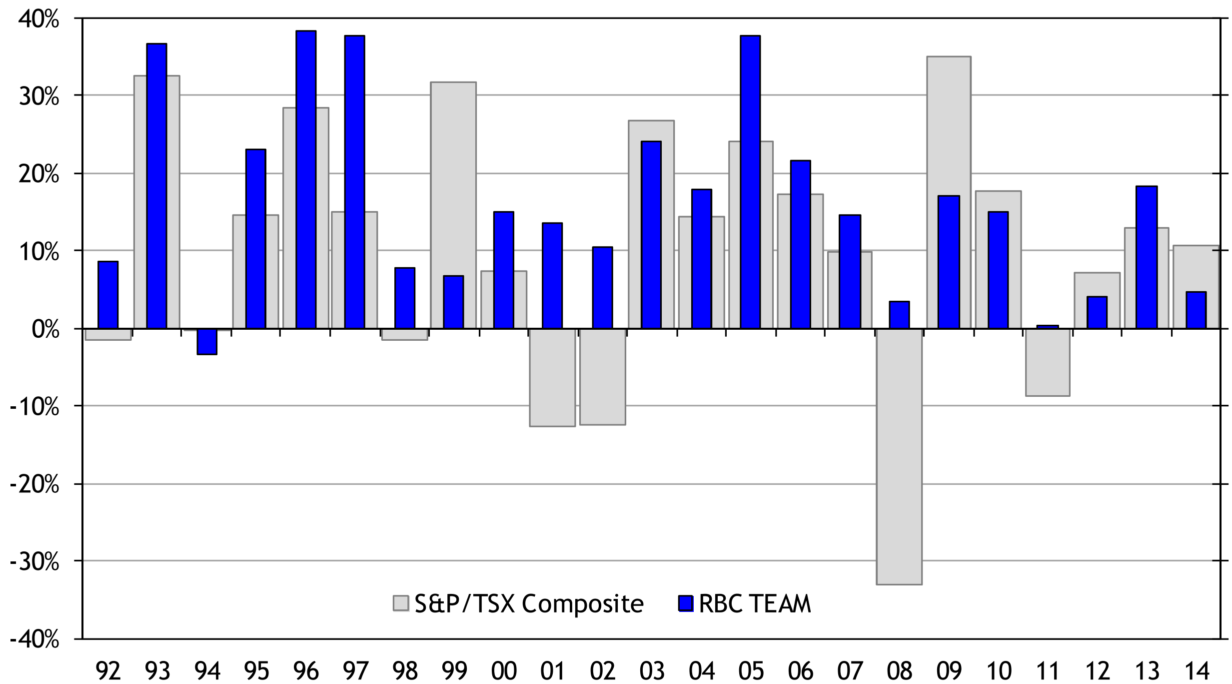
July 27th 2015

"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: 14,186
TSX 200 Day Moving Ave: 14,792
% Above/Below 200 Day Moving Ave: **4.09% Below**
Levels for change: 100% stocks - **TSX 15,532** and 100% fixed income – **TSX 14,052**

Weekly Quote

"To be a good trader, you have to be a contrarian…I am always thinking about losing money as opposed to making money." - Paul Tudor Jones

"Near a Canadian TEAM SELL Signal"

The TSX closed the week at 14,186. The Canadian TEAM Model will go from 50% stocks and 50% cash with a close below 14,052 at the end of the month. (Note: the US TEAM model is 50% stocks and 50% cash and would require the S&P 500 to be below 1960 to go to cash.)

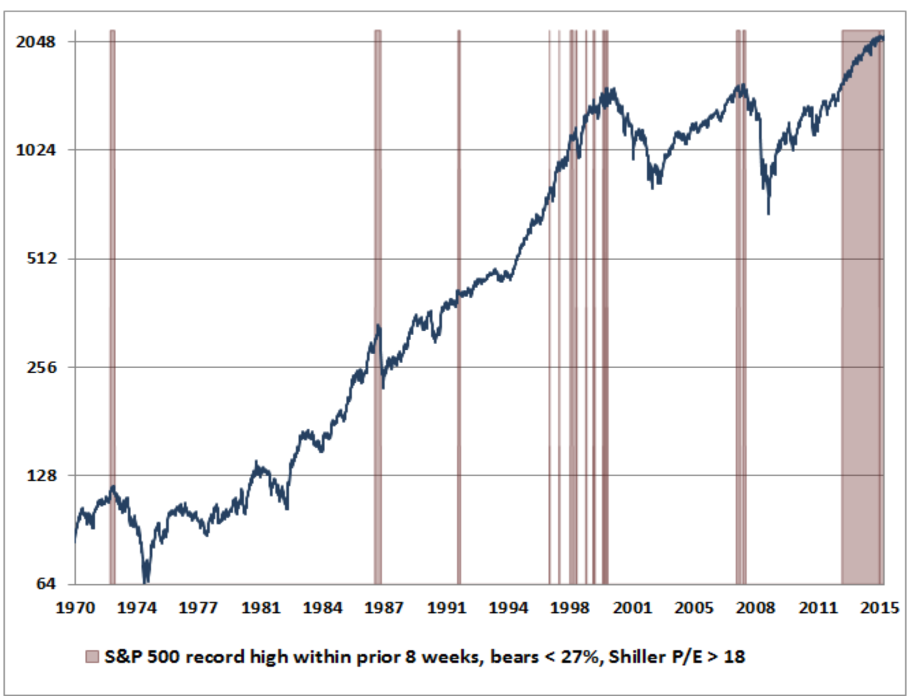
As I write this section of the weekly comment on Sunday, July 26, 2015 I cannot help feel the sense of tension investor's face in making financial decisions right now. Let me summarize the typical conversation I have with somebody on any given day:

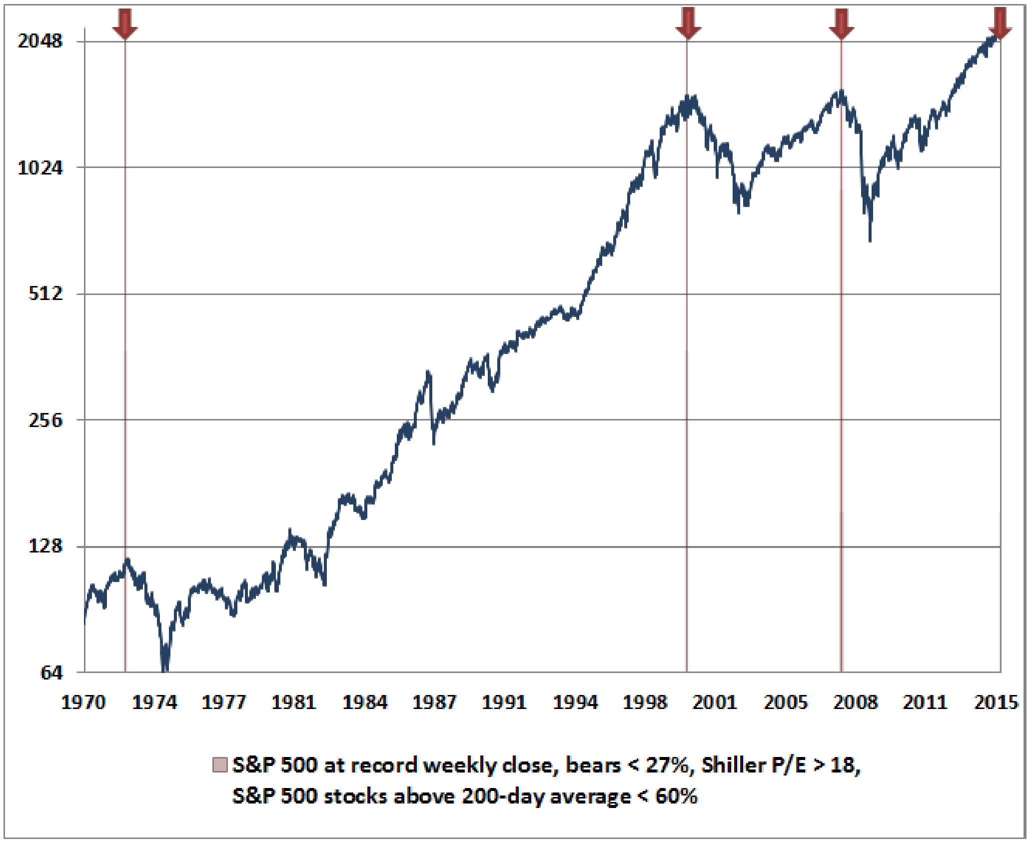
Nick, I understand that the markets are expensive. But what would I do with the money if I sold? I am earning an average of 4% dividends on my stocks…if I don't believe that a market correction would be more than a passing event and that stock prices will recover, why would I bother to sell my stocks and hold cash that pays nothing, AND then try to buy the stocks back IF they ever go down.

Let's face it Nick…You have been worried that stocks will go down for years and nothing has happened.

To everyone who holds those thoughts and opinions I cannot argue with one point that you make! Your position may end up being absolutely correct!

That said, I want to include two charts of the S&P 500 that show a series of "quantitative" screens that John Hussman produced this week. Please consider them both with the "average conversation" I included above and draw your own conclusions.





Obviously these two charts show us that the investment climate of 2015 is extreme to say the least!

The first chart clearly shows US stocks have been bought relentlessly for the past three years and that type of relentless buying has **never** occurred (without a correction of greater than 10%) before. The second chart adds the "screen" for the percentage of stocks in the S&P 500 that are BELOW their 200 day moving average. **This is important because it tells us the trend <u>may</u> be changing!**

The Tudor-Jones quote at the beginning of the editorial is the theme I have based my entire investment career upon. Running your financial affairs "defensively" is never as much fun as running them "aggressively".

Unfortunately, that has been made exponentially more truthful during this cycle. **Why? Because investors have been given no "safe" investment choices that pay them any rate of return!** If you want return…you must buy risky assets. Yet, look again at the two Hussman charts. What a time to be "married to risky assets!"

I want to include some big picture thoughts I had this week. I took a couple of days off to do some fishing and golfing. My daughter loves to hunt and fish. Along with my nephew, we spent a good number of hours fishing around Nanaimo and I had lots of time to think.

The picture above was taken about 3 minutes after that fish was landed by my daughter. That's how it works today! Pictures are taken and it was put out on Instagram…immediately! All weekend I ran into people who commented on "the nice fish that we caught"…crazy how things work today! When I was a young and fished I had to come home and tell everybody my fish stories. (Heck, my fish were always bigger than that in my stories.)

And that got me thinking again about how different today really is from 20 years ago.

1. **Most importantly, we are all 20 years older**. I know that is obvious but I will use myself as an example. Twenty years ago I was 32 years old…a downturn in my meager investment portfolio was only seen as an opportunity to add more money to it at better prices. Now, at 52 years old, I do not have the years that I want to work to replace the capital in my more substantial investment portfolio in the face of a downturn. In essence, the clock is ticking and defensiveness is much more important to me.

2. **Debt levels are far higher today for governments, companies, and individuals.** The media constantly debates if debt levels matter. For today, I don't care if "debt is a ticking time bomb" or not. Here is one undisputable fact: Personal debt makes it so people don't retire from their high paying jobs anymore. Few people even want to do the "freedom 55" gig. When older people keep working longer to support their debt and

their lifestyles it doesn't open up spaces in the working world for young people (like my daughter and nephew) to move into and start their careers.

3. **Investors have been anesthetized to believing a deep and lasting decline in asset values is impossible.** Confidence that "they" will never let it happen is at an extreme. ("They" being politicians and central bankers.)

4. **Technology has completely overtaken our privacy and allowed governments and companies into places they never should have been allowed.** Sorry if I offend anyone with this point. The other sad thought I had with this point…we gave up our privacy without any fight at all.

5. **Living to be 110.** I keep reading about these biotech companies that are curing cancer, Alzheimer's, heart disease etc. And that is amazing! But think about this…if my muscle structure and cell replication "blueprint" can hardly keep my body in decent physical shape even into my 90s…why would I want to be here for another 20 years anyway? Then there is the cost of keeping people alive with all this great new biotechnology. Then I also think, who saved enough money to support themselves until they are 110?

OK…enough with my random thoughts and back to tying this meandering mess into a summary statement.

The TEAM Model is back to signaling the time to be defensive is now. TEAM is a discipline that doesn't care about the news, the FED, or whatever else you might want to consider. It is completely "heartless and mathematical".

Remember, TEAM will adjust back into stocks if the present decline is another false alarm.

I will be calling EVERY client that owns stocks **<u>if</u>** we get this signal for the Canadian market. I invite you to call me first if you want to chat now.

<u>The BEST scenario for TEAM is that we get a Sell signal at the end of July to go to cash and the Canadian stock market continues to drop sharply. That gives us the opportunity to use the TEAM strategy to repurchase companies at lower valuations</u>. In the 2008 downturn, TEAM saved investor over 5200 TSX index points. (That means we sold out and bought the TSX 5200 points lower than we sold…not a bad deal!)

Moments like this are when investors need to be crystal clear on why they are buying, selling, or holding. Again, feel free to email or 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.