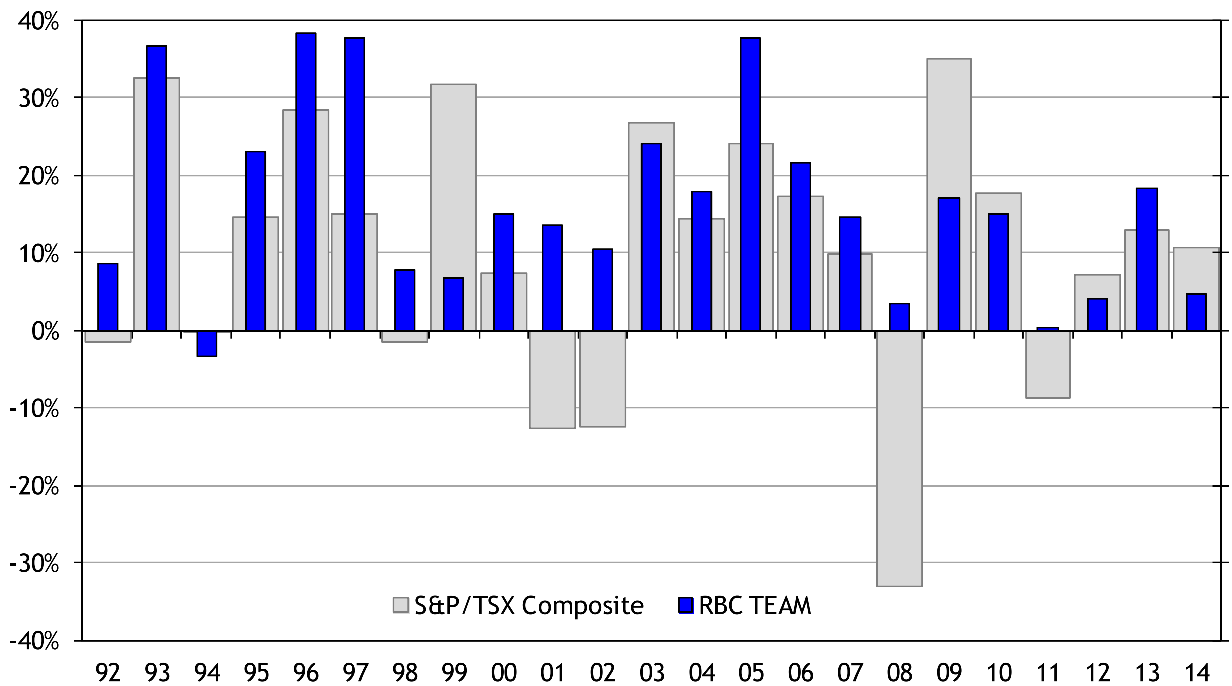
July 20th 2015

"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: 14,642
TSX 200 Day Moving Ave: 14,801
% Above/Below 200 Day Moving Ave: **1.07% Below**
Levels for change: 100% stocks - **TSX 15,541** and 100% fixed income – **TSX 14,061**

Weekly Quote

It is in the best interests of Greece to have its own currency, so that interest rates, exchange rates, and if necessary, even domestic inflation can act as shock absorbers for its economy, rather than forcing human beings to become the only shock absorbers that Greece has left.

John Hussman, July 13th 2015

<u>China, Greece, and the Canadian Interest Rate Cut</u>

China – Not a bunch of new news here to report. Chinese stocks are slowly re-opening after reaching a point two weeks ago where only 11% of their stock market was actually trading! About 75% of the shares are trading again as of Friday. The Chinese stock index has stabilized the past 5 trading sessions.

A number of analysts last week made the point again…**China is a much bigger deal than Greece…watch these developments closely.**

And that is exactly what we will do!

Greece – We need to do a really quick summary of the past 3 weeks in the Greek bailout sage: *Tsipras and his Sherpa's battle long and hard to try and get a deal done that stays true to his mandate…the "final" deal is on the table and Tsipras leaves the room and calls for a referendum…the referendum returns a result of 62% saying "No" to the deal…Tsipras returns to the negotiating table (new mandate from the people in hand) and **signs a deal that is worse than the one he turns down to do the referendum about!***

If you thought you were reading a "*Mission Impossible*" movie script you would be forgiven…seriously.

If this three year deal lasts more than six months I will be absolutely amazed.

Canadian Interest Rate Cut – There was a mixed reaction to the well telegraphed rate cut by the Bank of Canada (BOC) last week. Asset prices did what they were supposed to do (go up)…and the dollar also followed the script (went down).

For me, the interesting take away from the decision was seen in the investor forums on the Internet. A lot of people are just plain pissed at the one sided policy that ignores savers (read seniors) and favours debtors and exporters. Maybe they are the only ones left in these types of forums? Who knows?

Let's apply a little common sense to the situation. The BOC cut rates from 0.75% to 0.50%. Is anybody going to run out and take a new loan because of this cut? No, probably not…

Crashing the Canadian dollar in favour of oil companies, manufacturers and exporters is the unstated goal. My only comment: The last rate cut did not offer much of a bump to GDP in Canada…it actually fell further. Real estate markets are supported by the rate cut and, with the oil industry in Canada reeling, real estate is the most important economic driver left in Canada.

Bottom line: This "leopard" is not going to change its "spots"…the BOC manipulation of the economy will continue whether it works or not. Poloz and the rest of the BOC board will go down fighting with every tool they have in the tool box.

Canadian Inflation…A Long Term View

Canadians who lived through the Great Depression would remember working for a dollar a day and paying 25 cents for a pound (454 grams) of sirloin steak. Here is a snapshot of some wages and prices since those days.

In 1935, average personal income was $313 per year, milk cost 10 cents per quart (0.95 litres) and a dozen eggs would set you back 31 cents. A tin of tomatoes retailed for 10 cents.

Twenty-five years later, **in 1960, average personal income was $1,672 per year**. Milk cost 24 cents per quart and it cost 55 cents to purchase a dozen eggs. That can of tomatoes cost 27 cents.

In 1985, average income reached $15,903 per year, partly skimmed milk cost 98 cents per litre and eggs cost $1.37 per dozen. Canned tomatoes cost $1.30.

By 2008, average individual income was $37,700 per year, milk (partly skimmed) cost $1.99per litre and eggs cost $2.57 per dozen. The average retail price of canned tomatoes was still $1.3

	1935	2008
	$	
Bacon (1 kg)	0.68	8.90
Sirloin steak (1 kg)	0.51	15.39
Flour (1 kg)	0.07	1.89
Sugar (1 kg)	0.14	1.21
Coffee (1 kg)	0.83	12.93
Onions (1 kg)	0.09	1.28
Potatoes (4.54 kg)	0.14	4.58
Milk (1 litre)[1]	0.10	2.04[1]
Eggs (dozen)	0.31	2.57
Butter (454 g)	0.28	4.25
Total	**3.15**	**55.04**

1. Whole milk.

Source: Statistics Canada, Canada Year Book 1938 (Catalogue no.11-402-X), CANSIM tables 326-0012 and 003-0022 and Urban Retail Food Prices 1914-59 (Catalogue no.62-514).

Now I am going to create my own little table to make a slightly different comparison. What I am interested in exploring is the relative value of the WAGES, rather than the inflation in prices.

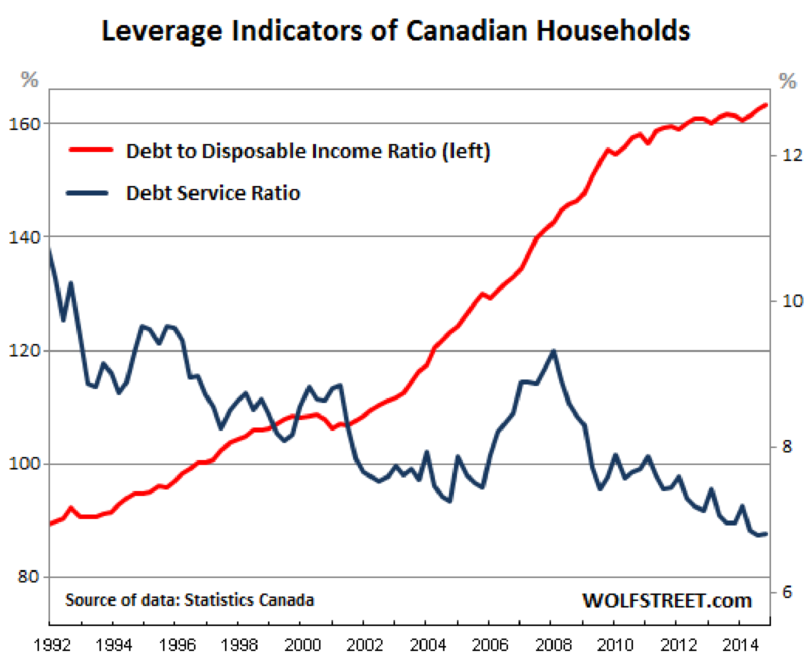
Year	Average Income	Cost of “Basket’ Goods	**Annualized “Basket” Buys
1935	$313	$3.15	99
1960	$1,672	$8.21	203
1985	$15,903	$20.77	765
2008	$37,700	$55.04	685
2013	$32,020*	$97.05**	330

* *All of the income statistics are for single income earners. Most of the data in the media uses “average family income”, which in 2013 was $74,228. (Just don’t tell that to the single parents in Canada!)*

***I had to do my own rough estimate for 2013 basket of goods…I could not find a Statscan historical figure.*

It really is quite an interesting data set…and I didn’t even include a column for “taxes and user fees” which have taken a greater share of Canadian’s take-home income over the decades!

Simply, these statistics represent the “*rich get richer and the middle class become lower middle class”* state of Canadian income dispersions. The middle class has been forced to compensate for these conditions by taking on greater amounts of debt.



Notice, even as interest rates decline, the debt/service ratio continues lower. What keeps this “train moving forward on the tracks” is higher asset prices. For those who are borrowing to buy appreciating assets, the added debt is a benefit.

Again, the class divide rears its ugly head…the lower your place on the economic totem pole, the more likely you are borrowing to pay “ongoing/monthly expenses” rather than buying appreciating assets.

Cutting interest rates last week does not help correct this problem…the exact opposite is actually true.

Somewhere, in the back of my mind, I hear Mark Carney’s voice when he was Canada’s BOC governor telling me to be careful about higher interest rates that were right around the corner…in 2012.

…or not so much~!!!

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.