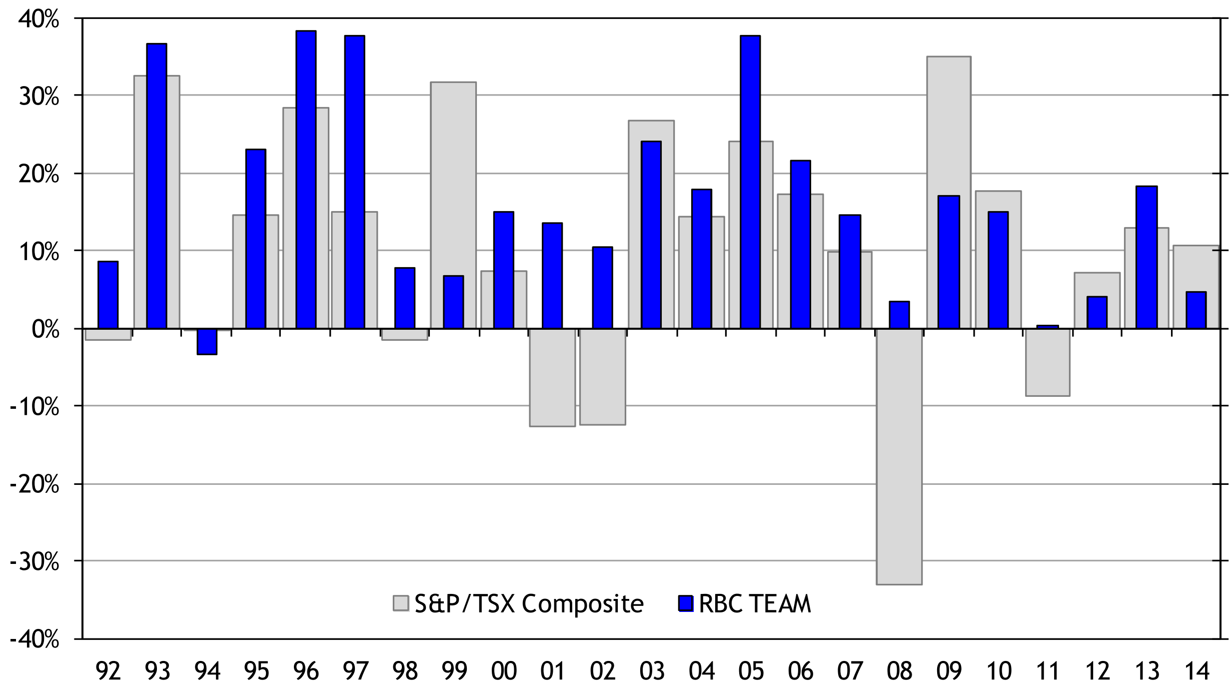
July 6th 2015

## *"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: | 14,650 |
| TSX 200 Day Moving Ave: | 14,831 |
| % Above/Below 200 Day Moving Ave: | **1.22% Below** |

Levels for change: 100% stocks - **TSX 15,572** and 100% fixed income – **TSX 14,090**

<u>*Weekly Quote*</u>

"*Hold stocks with confidence. Win glory for the country even if you lose the last penny.*"
– Fan Shaoxuan, senior excecutive at Weibo TV in China

*My BEARISHNESS is Increasing*

Nobody would accuse me of being a raging BULL about stocks. During the past six years I have been skeptical of stock market increases all the way along. Why? Because it has been built on a foundation of "funny accounting" and "funny money".

Fortunately the TEAM discipline for staying allocated to markets has forced me to leave my BEARISH feelings on the shelf and stick with moderate levels of stock market exposure.

But the TEAM discipline is telling me that the BULLISH trend in stocks is starting to exhaust itself. **As of July 1st, both the Canadian and US market based TEAM models all sit at 50% stocks and 50% fixed income**.

By the time you read this, the vote in Greek referendum will be known and markets will be responding in whatever way they choose. As I write these sentences on Friday, I have no real idea what a yes or a no vote means. **My argument has been that the Greek bank run is the more important issue and I don't think the bank run changes with whatever result the referendum produces!** We will see.

The incredible drop in Chinese stocks has not been talked about enough by the mainstream media. Look at the chart below:


At the start of the year the Shanghai Stock Exchange Composite index was at 3234. It peaked June 12th at 5167…and closed at 3686 on Friday. That represents a rise of 60% in six months and a decline of 29% in less than **three weeks!** The drop represents nearly US$3 trillion of losses.

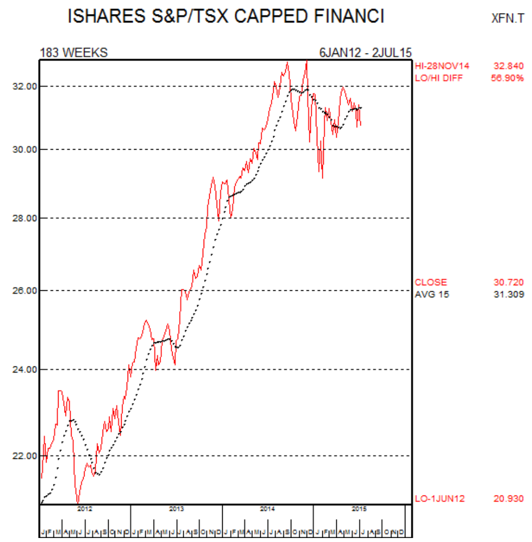
The picture above shows the “banana guy” on the side of a Chinese street trading stocks on his laptop.  Wow…the equivalent of the “shoeshine boy”?

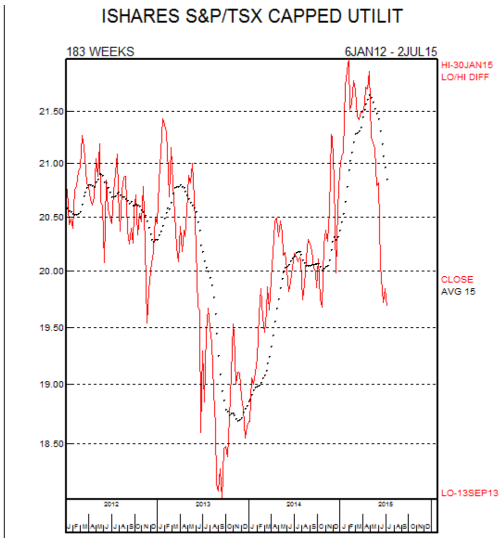
The Chinese index is still 14% higher on the year…for now!

Some argue Greece is a “side show”…and is some ways I agree when looking only at Greece and not the precedents being set in how Greece is being handled by the Eurozone, **but there is no way that a crash in Chinese stocks is only a side show!** China needs to see this crash stop or it will spill into our stock markets in North America.

The China situation is doubly serious for all of us in British Columbia when we consider what could happen to our real estate markets if the Chinese buyers evaporate due to losses in their own country!

How about our Canadian Banks and Utility shares?  These have been the backbones of most Canadian investor income portfolios!  What have these shares traded like lately?



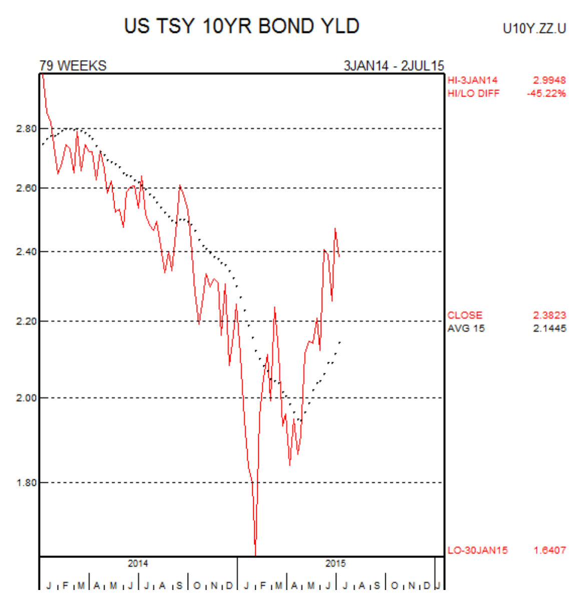



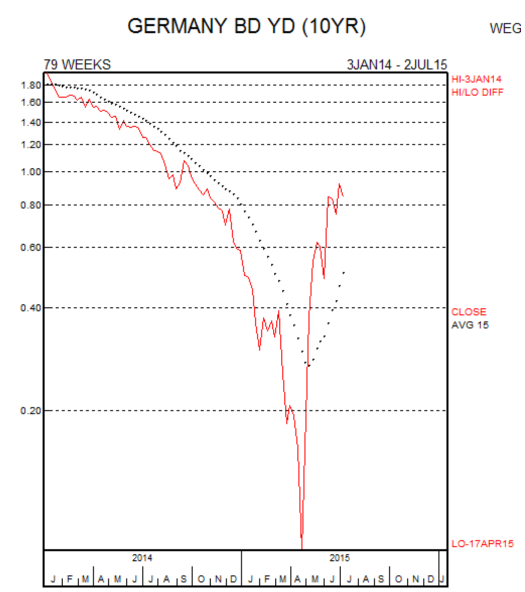

I would argue these charts are only “flashing amber”.  More time is needed to see how they start to sort themselves out technically.

Even interest rates around the world are misbehaving.  It is such a strange battle cry to hear the Central Banks in the US, Germany, and England continually signally higher interest rates.

What do they see in the economy that would justify the higher rates?  If we could sit at a US Federal Reserve meeting as a fly on the wall I am sure there is a great fear of seeing interest rates going higher!

The charts below show the 10 year bonds for the US and Germany.




Why are interest rates persistently working their way higher?

Bottom line…I have been of the opinion that the next BEAR market (when it started) would be a longer term, slower developing type BEAR. This is because interest rates are so low that people would have no place to go when they sell their stocks so the downward trajectory would be less.

At the same time, enough of these economic indicators have shifted that we should already see some meaningful correction starting. But that is not what I see! Investors are generally apathetic about the technical warning signs and that makes me more nervous.

If we haven't spoken for a while, or this message strikes a chord with you please give me a call and we can have a chat. This is a quiet time of year and it is a great time to have a conversation. (You can give me a call or just send me an email and I will call you.)

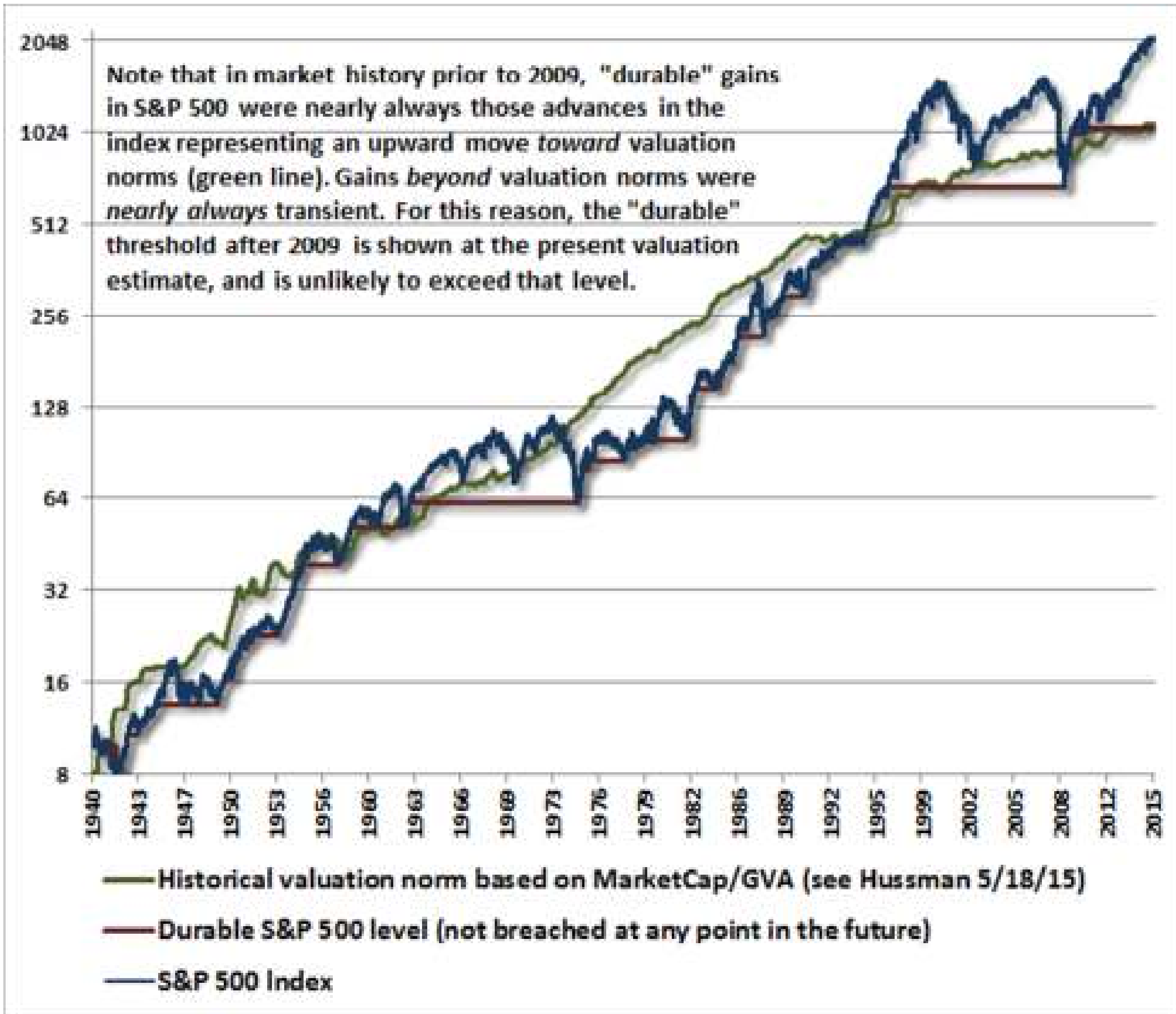
*<u>Durable S&P 500 Levels</u>*

Along the same lines of thought, the following analysis looks specifically at the US stock market. I choose it because the US has been the most resilient to decline of the major global markets. It also impacts Canada the most!

The term "durable gains" is one I have heard used before but I have never seen someone try to quantify what they actually look like. Durable gains have two important components…one is the literal meaning and one is more subtle.

The literal component is the idea of looking at a chart of a stock market index and noticing levels that, historically, the index has been able to hold (durable gain) through both a BULL and BEAR cycle, as compared to levels that are associated with the BULL market tops.

Below is a chart from the weekly comment of John Hussman that uses "market capitalization / gross corporate value added".




John Hussman does an excellent job showing “durable gain levels” for the S&P 500 by using a correlative index that attempts to quantify times of market euphoria and times of market fear.

**The S&P 500 is significantly higher than the green “historical norm valuation” line right now.** Can it go higher? Yes! Can it stay here for a long time? For sure!

The first section of the weekly comment made mention of some of the things that are “hanging in my worry closet.” Below are a few more financial issues that I see moving closer to center stage that <u>**could**</u> change the sentiment towards stock investing right now than there has been for the past 4 years.

1. China – mentioned in section 1 of the weekly
2. US Federal Reserve “box” – saying they are going to raise interest rates even when they know higher interest rates will cause havoc.

3. Illiquidity in the bond markets – Bond volumes have evaporated. What if some REALLY wants to sell?
4. And most of all…Investor Apathy – Both institutional and retail investors have simply stopped paying attention.

Once again, I encourage you to give me a call and chat if you feel like it is time to discuss how these issues impact your investment strategy. Please notice this is not in direct response to Greece and what is going on there…this is a "bigger picture" type concern. It is always good to chat!

Thanks and please don't hesitate to contact me.

*Early Monday Morning Note on Greece*

The "No" vote won in Greece…61% **No and 39% Yes**.

The Greek leaders now have a mandate to oppose the ECB. Interestingly, in the last couple of hours, Yannis Varoufakis (Greek Finance Minister) resigned his post. He has been singled out as the "problem child" for negotiations at numerous times…now that is no longer an excuse for the ECB and EZ.

Markets are trading "mechanically" around the world. Stocks down a bit and bond yields down (prices up) a bit.

The Greeks did the right thing voting No. Their world was not going to get better with another "deal" with the ECB that came on the ECBs terms!

Greeks celebrated in the streets last night. They have been in a recession for six years and that recession is about to get worse, not better in the short term. But Greece needs a way to devalue its currency and write off debt.

Let the games begin!!!

***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.***