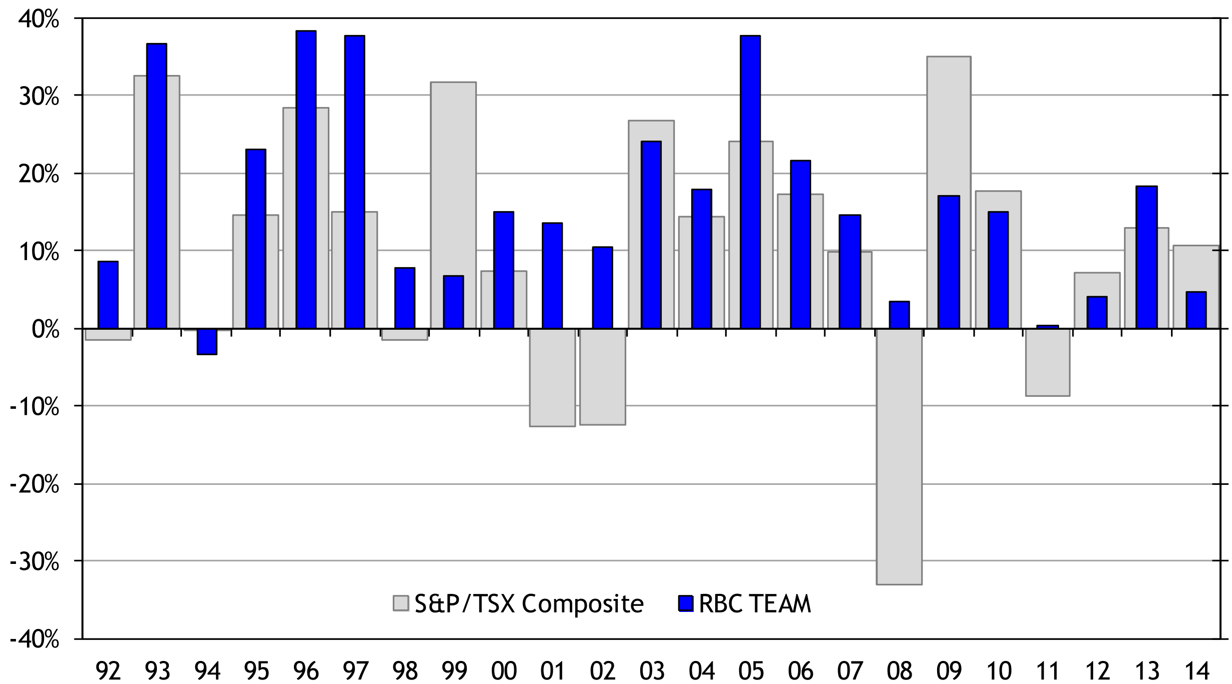
June 8th 2015

"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: 14,957
TSX 200 Day Moving Ave: 14,951
% Above/Below 200 Day Moving Ave: **0.04%**
Levels for change: 100% stocks - **TSX 15,698** and 100% fixed income – **TSX 14,203**

<u>*Weekly Quote*</u>

"*What it is and what never should be*" – Led Zeppelin

Nick comment: Kind of describes the condition of global bond markets!

A Week of Pictures

The past week had a lot of colour for those interested in financial markets. Bond markets stole the show…especially after strong employment data in North America.

The German 10 year bond jumped from a yield of 0.61% at its lowest level on Monday, June 1st to a high of 1.00% on Wednesday June 3rd. It settled the week at 0.85% on June 5th…for all intents and purposes, German longer term interest rates doubled last week!

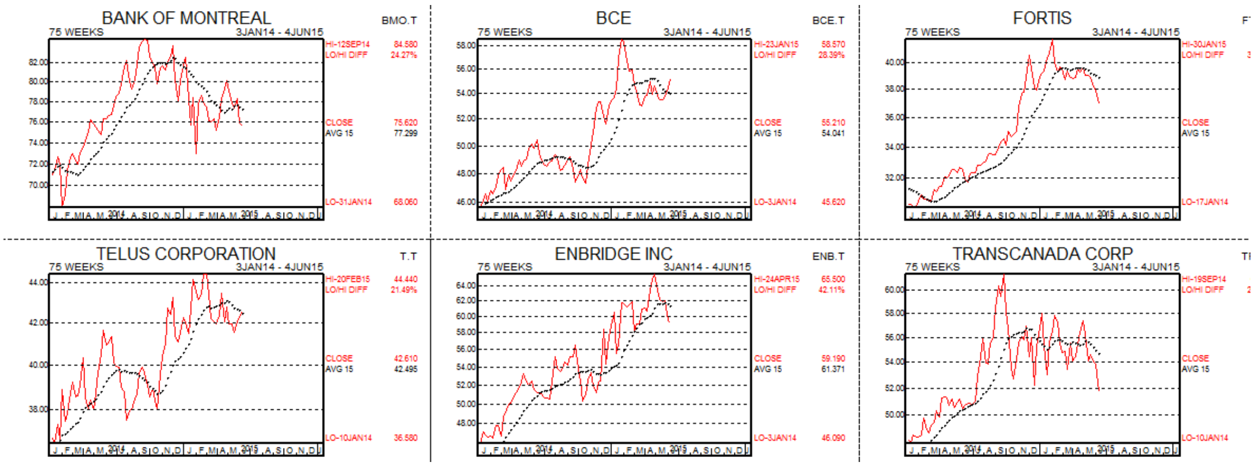
For the German 10 year bond investor they had to reconcile their tiny 0.61% yield for the entire year with a capital loss of 3.35% for the week! Hmmm?

Let's take a look at the 10 year bond in the US for another interesting chart.

I know that 2.40% is not high yet…but look how far it has moved in the past couple of months!

How about Canada? What have the effects of higher interest rates been in our country?

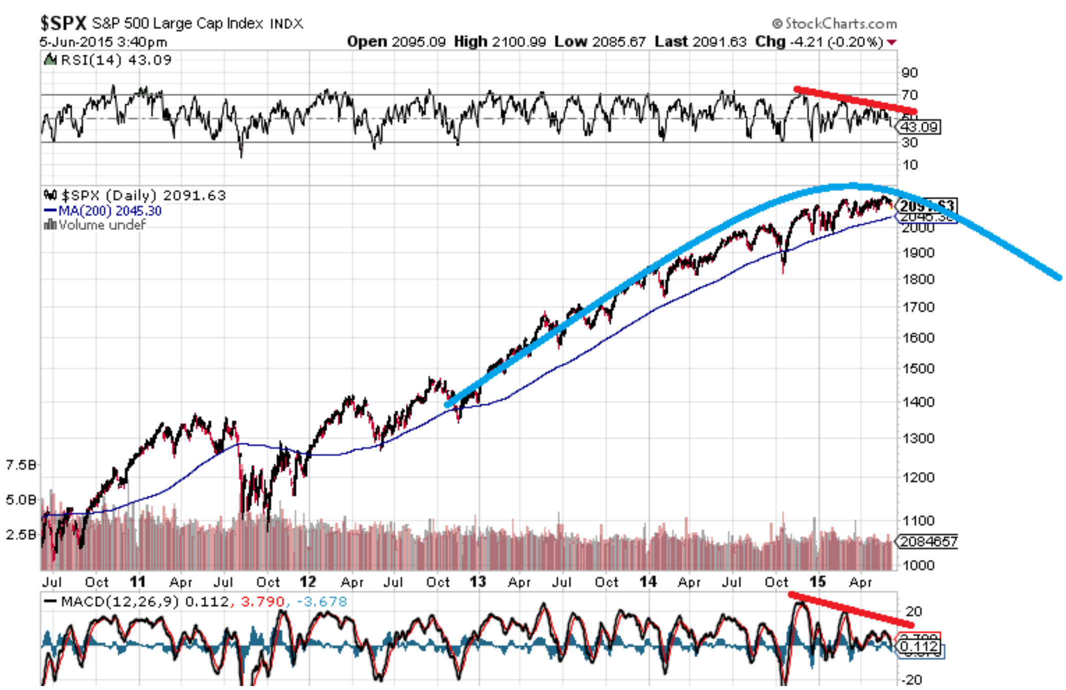
Below is a table common shares of interest sensitive companies. I have chosen a selection of banks, utilities, and telecoms. These are the core dividend holdings of most Canadian equity portfolios.



All of the two year charts above have, at least, lost their upside momentum. A couple looks like they are ready to turn down. **Each one of the companies above is inversely sensitive to higher interest rates!** Each company is a “fan favourite” to Canadian stock investors and mutual funds. It is wise to take notice of such changes after 6 years of higher pricing…all trends end at some point.

Maybe a quick look at where the TEAM model moving average signals are sitting is also good to review at this point.

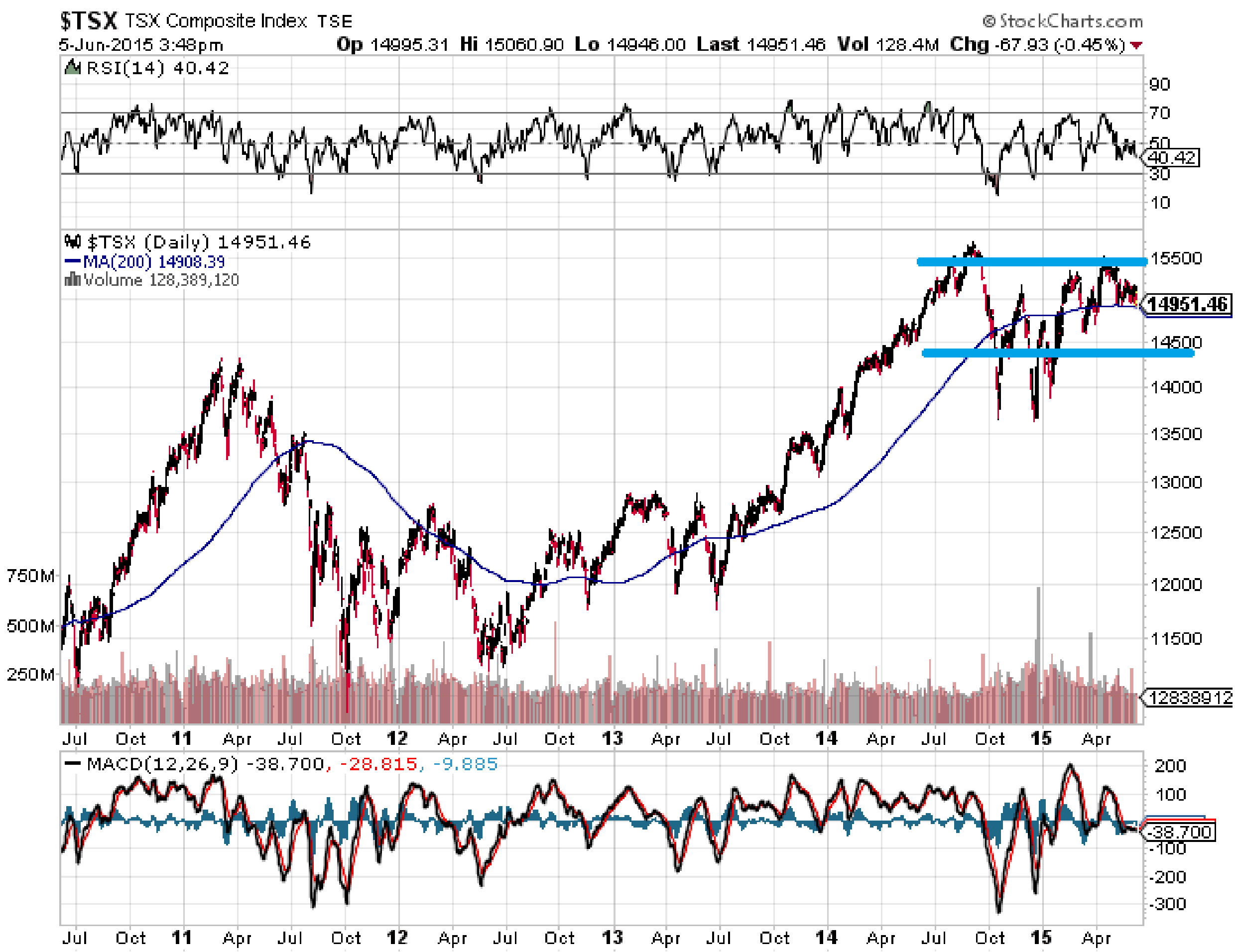
The S&P 500 in the US has continued to build a longer term top. The light blue “dome top” shows my optimistic expectation for the US stock market **IF INTEREST RATES KEEP RISING.**



The US TEAM model is in the 50% stocks and 50% fixed income band at present**. A move above 2147 regenerates the 100% stock trigger and a move below 1942 would trigger a move to all fixed income.**

The Canadian stock market has already gone into a "sideways consolidation. The large decline in crude oil impacted the Canadian stock market much more than the US market. The sharp drop in September 2014 is where oil started its weakness in earnest.

The two blue lines show the upper and lower initial boundaries that the TSX needs to break through before I get excited or scared. (Depending upon which way it breaks.)



The Canadian TSX is sitting right on its 200 day moving average. If it was not for the rising interest rates around the world I would not be paying any significant attention to the meandering gyrations of the TSX within the light blue "neutral zone". But I can't help but imagine higher interest rates being somewhat tough for stock markets to digest **IF they keep rising**.

Let's see what the week brings us!

Alfred Owen Crozier Jr. – U.S. Money vs. Corporation Currency: "Aldrich Plan"

"***Surely there can be no more inspiring mission than to fight for the things absolutely necessary to conserve popular government and preserve the Republic's life."***

The above is the last line of the dedication from the author's 1912 book mentioned in the title that summarizes the financial challenges reaped from allowing bankers to control the money supply and, ultimately, the governments too.

(If you Google the title and author of the book it is free online.)

The **Aldrich Plan** proposed a "central bank" that would be openly and directly controlled by Wall Street commercial banks on whose behalf it would solely operate, instead of doing so indirectly, behind closed doors.

The Aldrich Plan was defeated in the House in 1912 but its outline became the model for the bill that eventually was adopted as the Federal Reserve Act of 1913 whose passage not only unleashed the Fed as we know it now, but the entire shape of modern finance.

The reason I mention a book from over 100 years ago in my weekly is because it so graphically outlines the state of our money system in the present. The entire global monetary system resides in the hands of less than 80 central bankers around the world. The power they have been granted allows them to make the decisions that impact all levels of government and finance.

It is deeply interesting that in 1912 the U.S. was still under the original gold standard for the US dollar AND its politicians still feared and respected the US Constitution. President Andrew Jackson was quoted when he was being blackmailed to hand political power to the Wall Street bankers of his time or they would derail his run for the next Presidency, "*I believe you are correct (you do have the power), but that is too much power for one man to have in this Republic, and by the Eternal, I'll veto that bill!"*

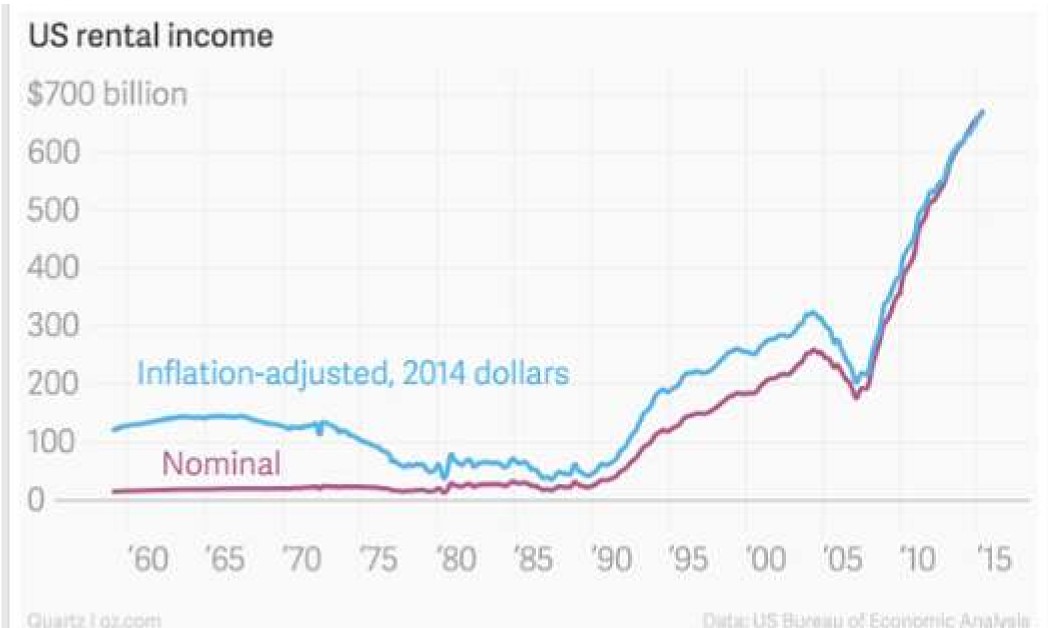
And veto he did!

The victory was short lived for the American people. On Jekyll Island only a year later the US Federal Reserve Board came into being. Yes, originally it was not as powerful as what was proposed in the Aldrich Plan…but, over time it fulfilled what was prophesied about it in Owen Crozier's 1912 book.

The US Constitution is an incredible manifesto that, if followed to the letter, provided a template to a land of equal opportunity and prosperity. Too bad it was forgotten…

__Hmmm? No Inflation Here__

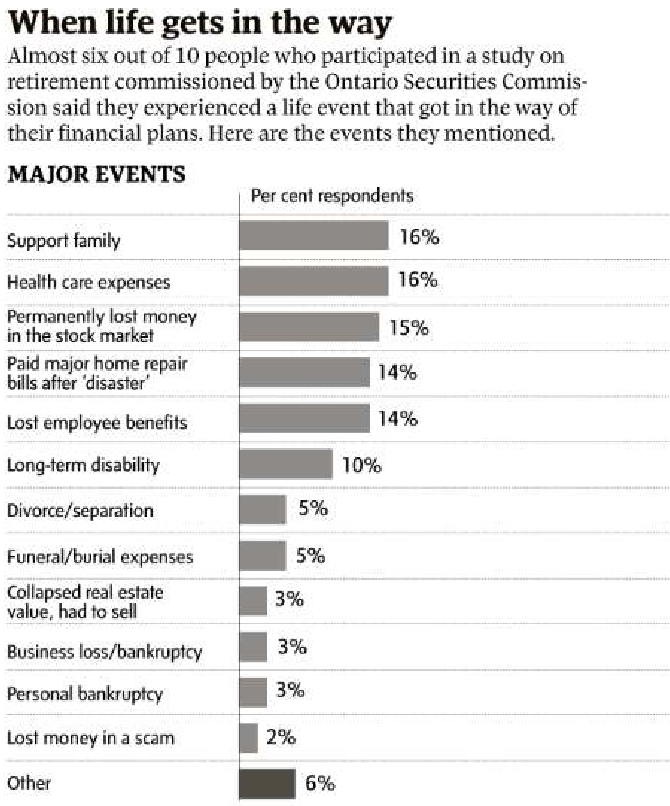
A few "brain teasers" for you to finish off the weekly. The first chart shows the ramp up in rental income in the US since the "Great Recession" started. (The sharp incline is due to the combination of lots more renters coming into the rental market when they lost their homes AND rising rental costs.)



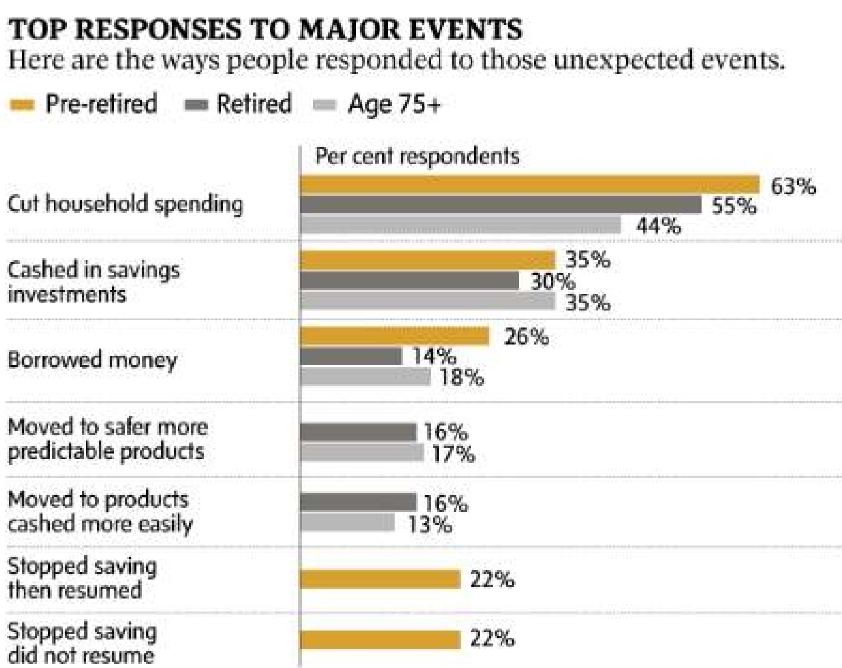
I could not resist showing the second graphic. I was listening to satellite radio and an add came on for the "company" below. The jingle basically said, "You own your own home and you are short on cash? No more equity available from you home? No problem…do an equity takeout on your car!

Wow…Really????

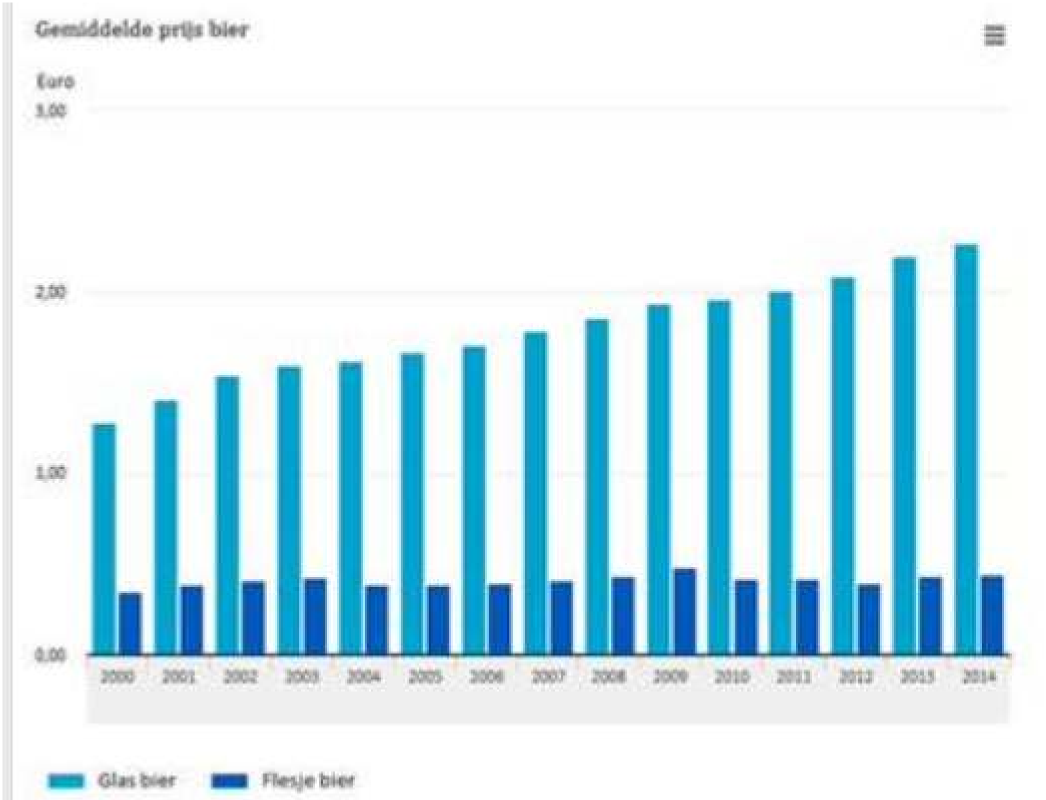
Rob Carrick in the Globe and Mail wrote a piece that had two interesting graphics. The theme of the article was *“it is time to get real about retirement*.”



The next graphic showed how they responded to the retirement planning disruption.



And, just for fun, check out the rise in cost in buying a beer in a Dutch pub vs. buying beer at the beer store and bringing it home to drink…in Euros. (I know, what am I doing reading something in Dutch when I am an Italian…)



…and you don't even have to find a ride home after you have had a couple!

Have a great week!

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.