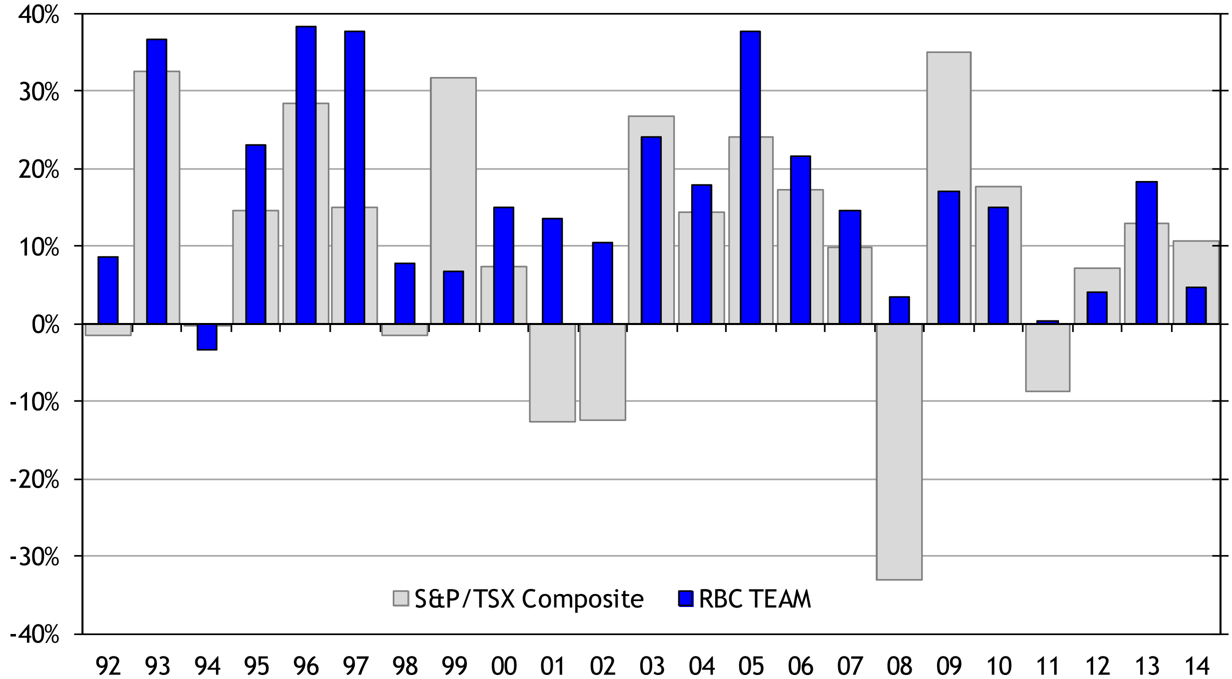
March 30th 2015

"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: 14,815
TSX 200 Day Moving Ave: 14,911
% Above/Below 200 Day Moving Ave: **0.64%**
Levels for change: 100% stocks - **TSX 15,640** and 100% fixed income – **TSX 14,162**

Weekly Quote

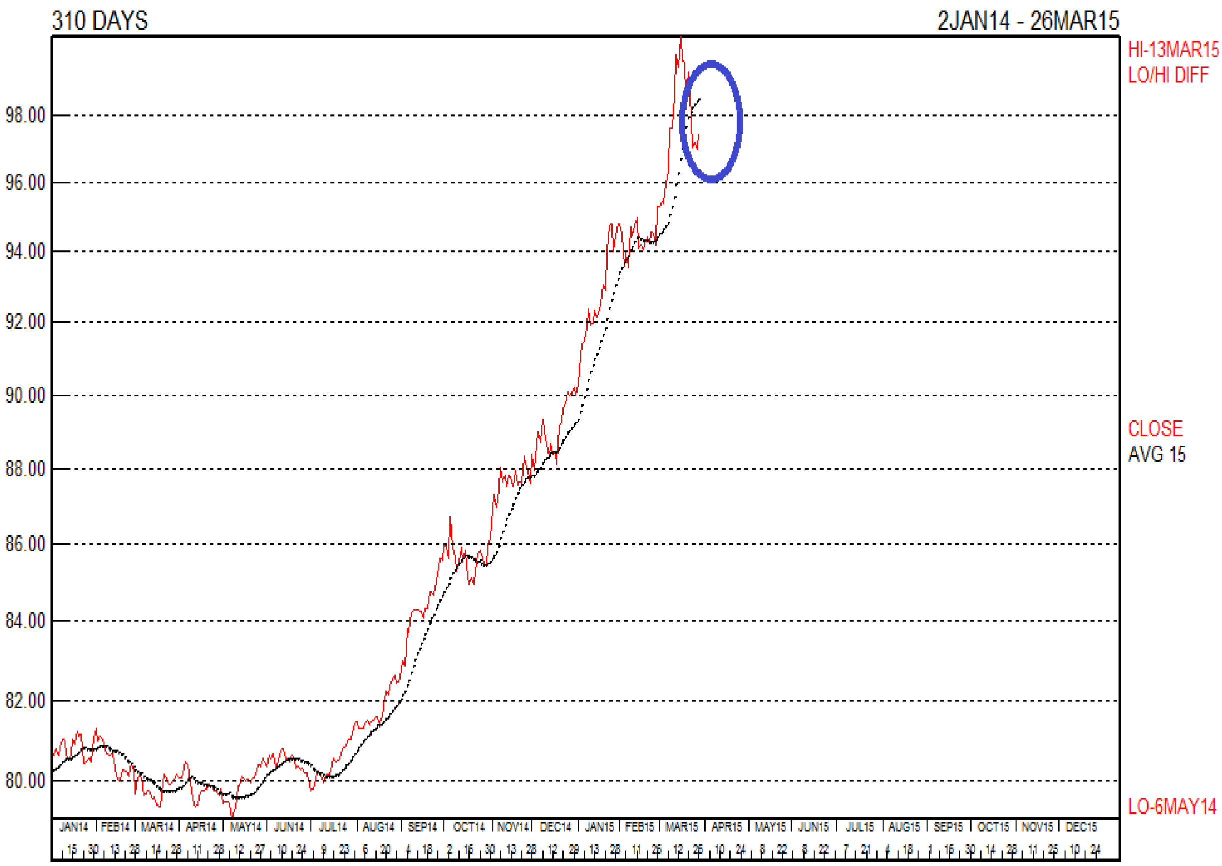
"*Europe wants all of the gain, with no economic pain*" – George Friedman, Stratfor

Nick comment: QE in Europe is more like "something to do" than an economic policy with objectives.

US Dollar Top?

Are we there yet?

The popular refrain of children from all eras when traveling to a vacation destination…investors are asking the same question when hunting for a top in the US dollar chart!



The blue circle shown holds the key to this question. **If the red trend line for the US dollar index can go back above the dotted black 50 day moving average line, then all bets would be off that this represents a top for the US dollar.**

You can see a number of other points in the past 9 months where the red trend line has gone below the dotted black line, only to smash back above it again.

The US FED has made this decline a bit more interesting by pulling away from a June interest rate hike promise.

Let's let the US Dollar Index finish telling us its story in coming weeks and months!

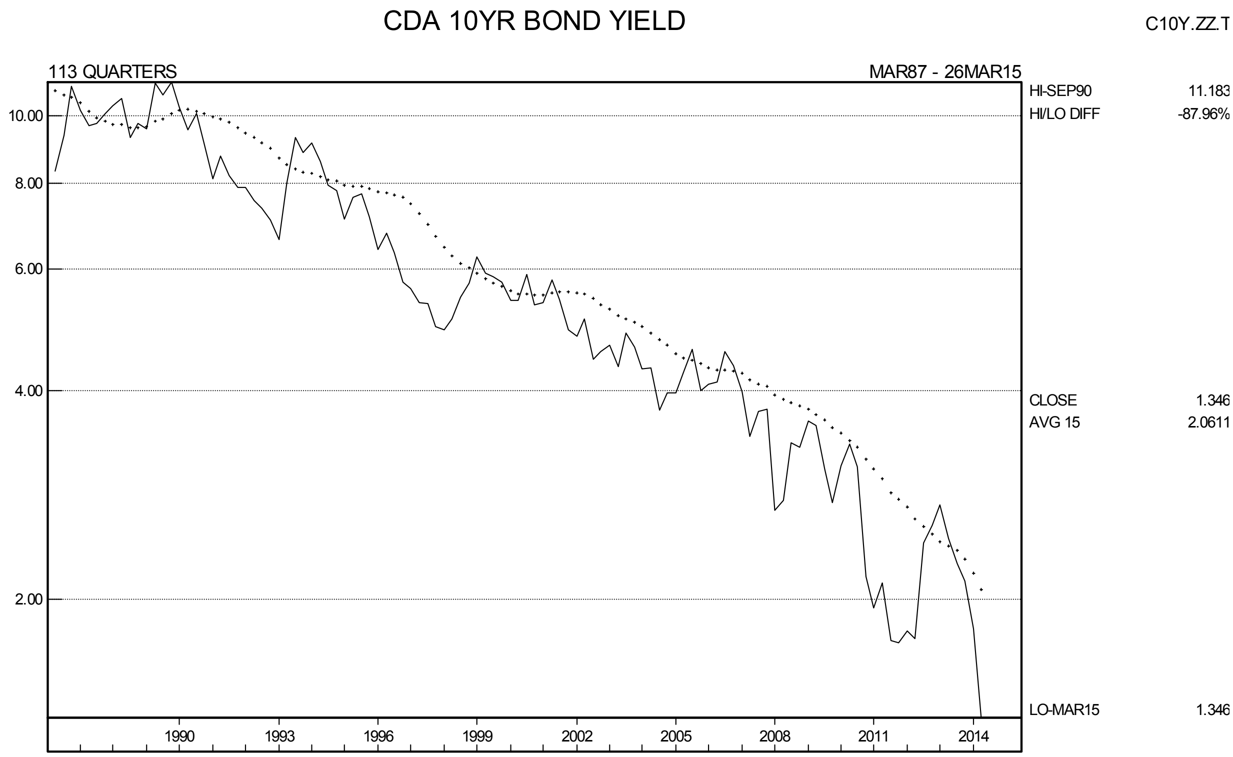
Choppy Stock Markets…Bonds Lack a Heart Beat!

All over the globe, financial markets are trading less and less volume. Why is this happening?

Ironically, the main reason is the "volatility" is shrinking!

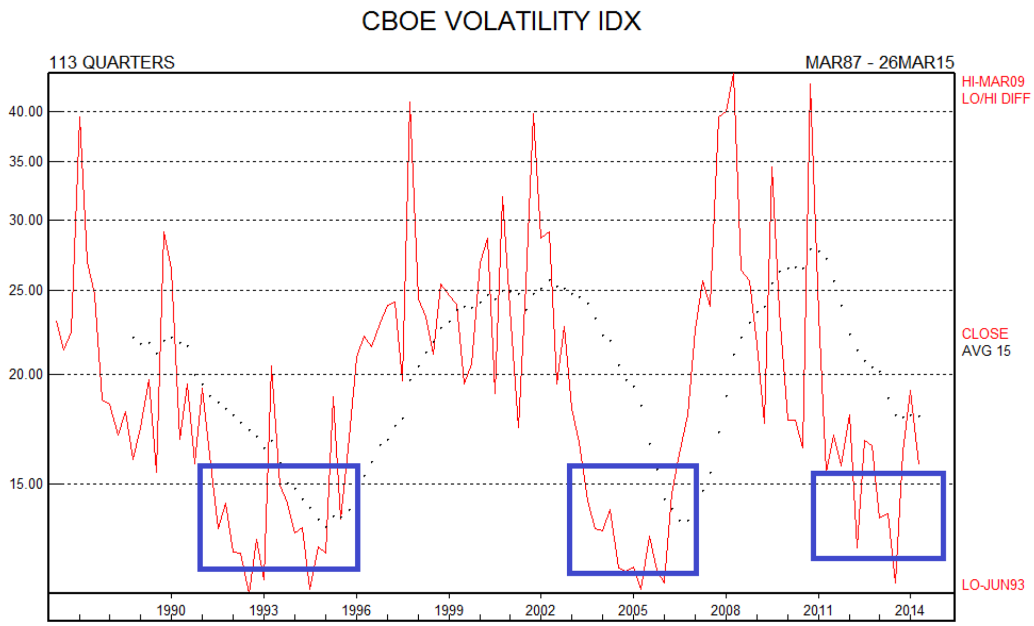
It is quite easy to understand the concept of shrinking volatility when we think of interest rates and bond markets. When interest rates begin to approach multi-hundred year lows, clearly, the price volatility falls.

The chart below shows the yield on the Canadian 10 year bond. Remember, zero is no longer as low as these yields can go. 12 of 18 European nations have "negative interest rates"! I'm not predicting a negative interest rate in Canada…but I never predicted ANY negative interest rates around the world either!



Japan is the poster-child for low bond market volatility. There are entire days when the Japanese bond market does not trade! When your 10 year bonds yield only 0.35% why would they? Nobody is looking to buy that investment…and if one wants to sell some Japanese 10 year bonds the only buyer in the room is the Central bank of Japan (or one of its sponsored agencies.)

But what about stock markets? How can I say that the volatility is taken out of the stock market?



The chart above depicts the US volatility index. It measures the amount of volatility in the US stock market and as you can see, the past 4 years have been amongst the lowest in the past 20 years!

So stock prices are not volatile either?

But why with all the money that has been printed around the world in the past 6 years wouldn't there be more price movement? The money has to go somewhere? Right?

Not necessarily!

The chart above shows the "velocity of money" for the past 20 years. This chart shows money can sit in "puddles" doing nothing for a long time!

Periods of low volatility eventually end. I have no idea when or why this one will end…I only know that it will. Leading up to this time, I continue to stay disciplined and manage risk as best I can.

Managing risk has been a sucker's game so far during the past 6 years. That will change when volatility returns…don't get complacent…stay vigilant.

__More Questions about Canadian Housing__

Over the past 8 days I have seen three editorials speaking to the "bubble" in Canadian real estate. Each publication contains approximately the same information. It is a variation upon the theme of the break in oil prices, coupled with world record-breaking debt to income levels, leading to a correction in our real estate markets in Canada.

The level of accurateness in these reports is not my main concern.

What I really care about is that they are being written! You see, markets change by perception. When you look at the charts below there is nothing more startling about the data presented in 2015 than there was in 2014 or 2013. The real estate markets were expensive then too!

But if the global perception becomes that "*Canada is an expensive real estate market that is ready to decline*" then foreign investors will divert their attention to a country that offers a better value.

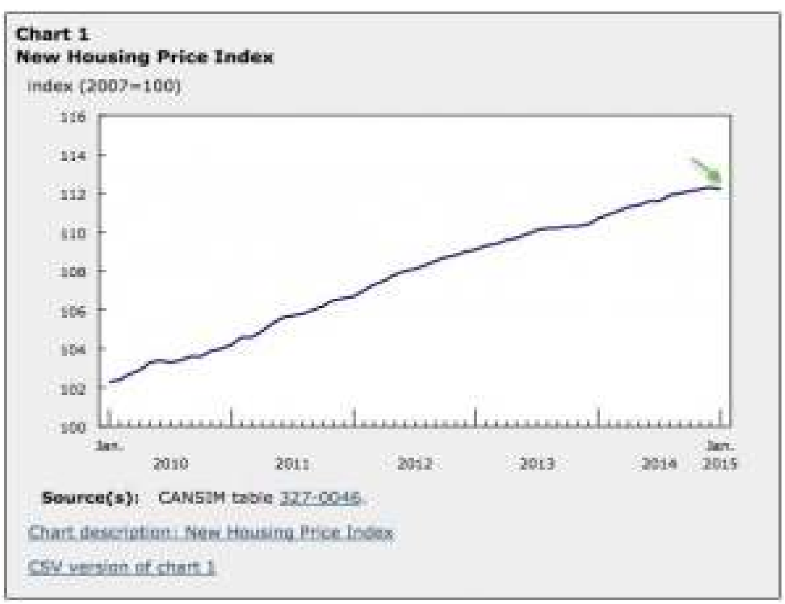
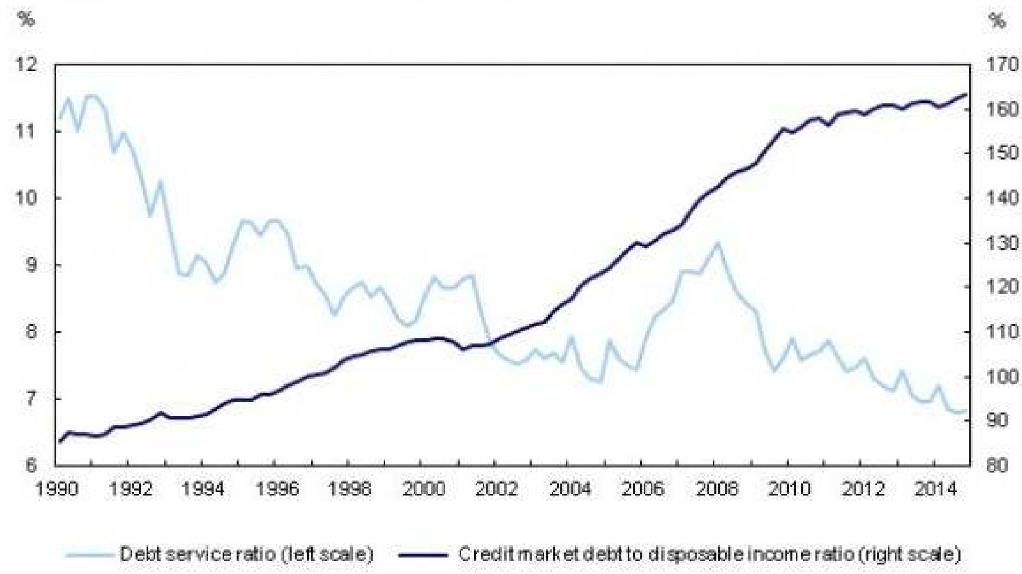


Chart 2
Household sector leverage indicators



If there is one lesson I have learned good and hard during my years around the financial markets it is: **“Markets always do what they are supposed to do but rarely when they are supposed to do it.”**

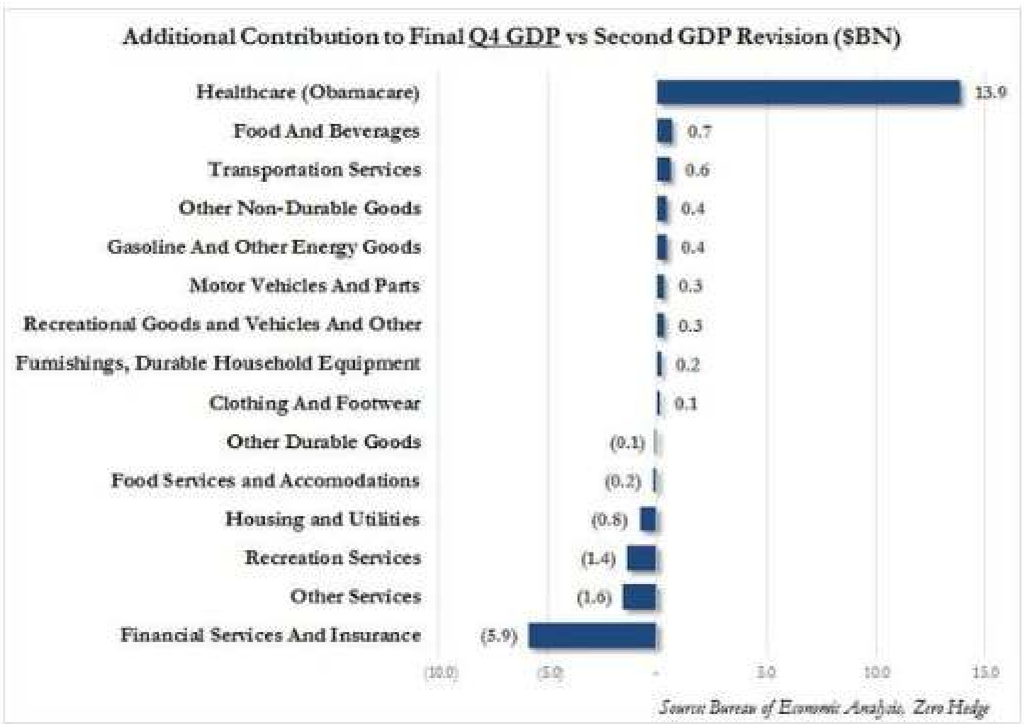
Keep your eyes open for more editorials like the ones I am alluding to. Read them all…not that you will learn anything particularly new, but search for the themes and try to imagine who the intended audience is for each editorial.

<u>US GDP for 4th Quarter</u>

The Gross Domestic Product (GDP) for the final quarter of 2014 came in at 2.2%...a little below expectation but a decent number, none the less. But below the surface the number gets a bit fuzzy…see chart below.

The chart below shows that nearly 40% of 4th quarter GDP came from government expenditures for Healthcare (Obamacare).

I’m not sure that is representative of a “healthy” economy? (Pun intended!)



Can you spot the outlier?

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.