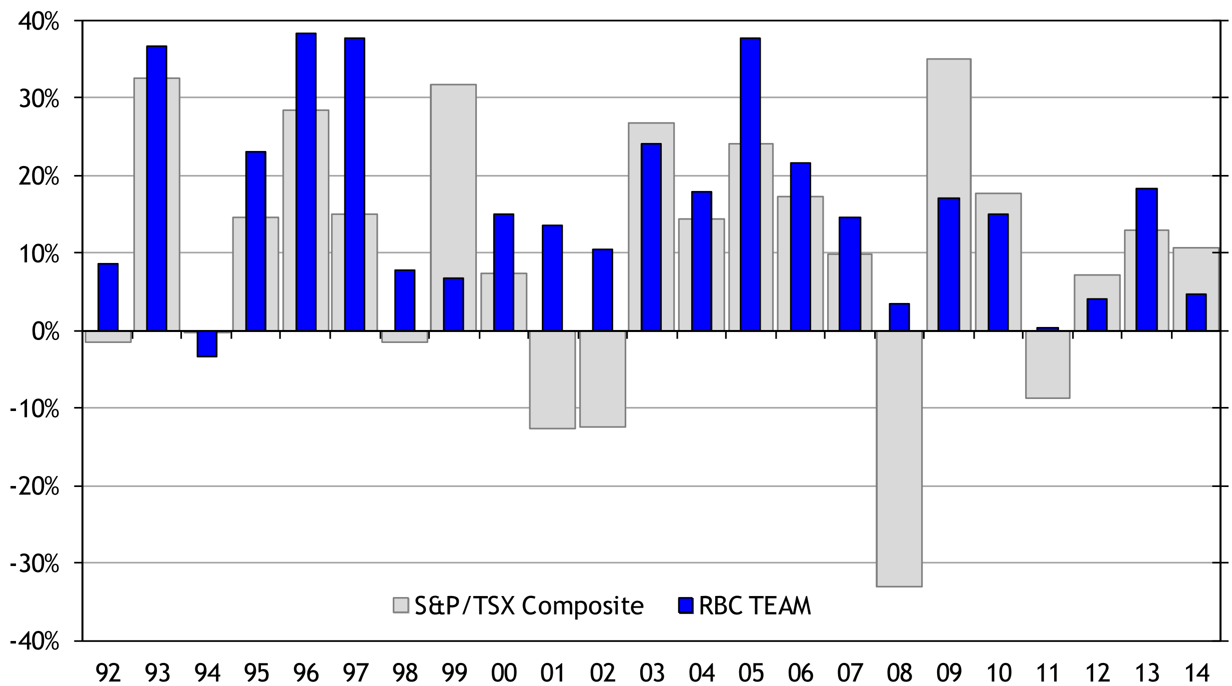
March 9th 2015

## *"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: 14,946
TSX 200 Day Moving Ave: 14,902
% Above/Below 200 Day Moving Ave: **0.30%**
Levels for change: 100% stocks - **TSX 15,610** and 100% fixed income – **TSX 14,130**

*Weekly Quote*

*"The ECB is going to make the same mistake as the Federal Reserve in the US and catalyze social tensions."* – Jim Bianco, President of Bianco Research

Nick comment: Today the ECB begins its QE program…only it starts buying bonds with **negative interest rates**!

*Canadian TEAM Model Sold Out as of April 2015*

Assets in the Canadian TEAM model have now climbed to the $500,000,000 level. When I started running a series of portfolios that were the predecessors to the present day TEAM strategy, I knew the concept was powerful…obviously others across Canada agreed.

**The bad news is that TEAM is going to "cap" at in the April selling period. This means that it will be no longer available for new purchases for the Canadian stock market related investments**.

If you were considering making an investment in the Canadian based TEAM note we should speak soon.

*Oil Update*

This one is completely FYI…I have no way to validate how prevalent the scenario is but the excerpt was taken from Bloomberg which (I hope) we can still trust to research its facts!

*There is one place in the world where oil is still worth $95.00 US a barrel…on paper!*

*The U.S. Securities and Exchange Commission requires drillers to calculate the value of their oil reserves every year using average prices from the first trading days in each of the previous 12 months. Because oil didn't start its freefall to about $45 till after the OPEC meeting in late November, companies in their latest regulatory filings used $95 a barrel to figure out how much oil they could profitably produce and what it's worth. Of the 12 days that went into the fourth-quarter average, crude was above $90 a barrel on 10 of them.*

*This year tells a different story. The average price on the first trading days of January, February and March was $51.28 a barrel. That means a lot of pain -- and writedowns -- are in store when drillers' first-quarter numbers are announced in April and May*

My only comment is for INVESTORS to be careful "buying the dip" in oil stocks. (TRADERS may take advantage of the volatility.) **I am not seeing enough strength in the oil markets to validate a sustained move higher from here in the next six months**.

At least wait for WTI crude prices to hold $60.00 US a barrel.

<u>*“Generation 2.95”*</u>

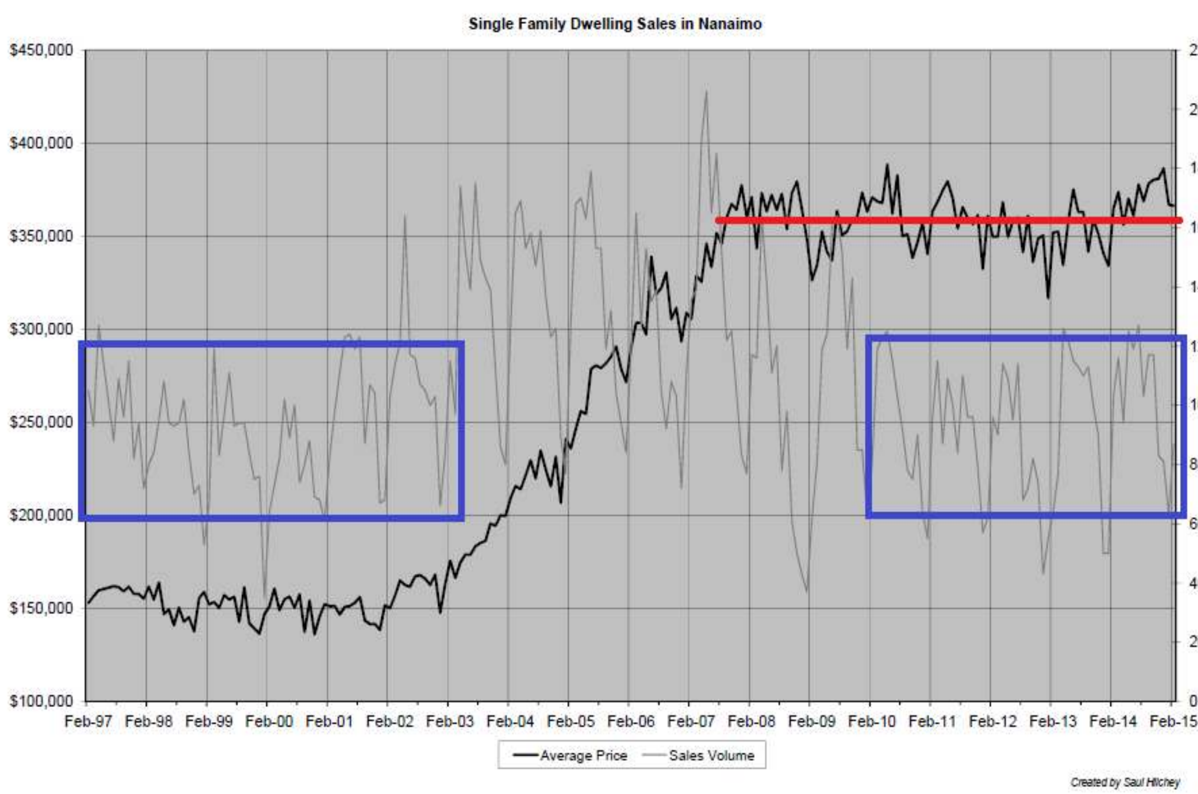
It is true that so much of what you have experienced in your past predicates how you feel about the future.

As a generation, those between 40 and 90 years of age today have been biased towards <u>owning</u> real estate, paying the mortgage down over their lives, and then using the paid off real estate asset towards their retirement savings.

The strategy has been a solid one because, for the most part, real estate has always increased over the past 60 years!

But we constantly hear how the “under 35” crowd doesn’t want to “commit” to buying a home and settling down. The stereotype is “they want to keep their freedom”.

Well, if you think about the length of time they could have been in the real estate market (about the past 10 years maximum) their bias is completely understandable! Look at the chart of local Nanaimo single family real estate prices below:




Notice how prices have been range-bound since peaking in 2008 (red line average)…and also notice how, in the blue boxes, the sales volume has averaged about the same as way back in 1997-1999!

Three points:

1. Why would a young person jump out and buy when they could rent and "keep all their options open" when their experience is real estate has not gone up in price?
2. If low interest rates can't entice people into taking the plunge into the real estate market, what will?
3. Wages have not kept up with rising living costs which create another barrier to first time real estate purchase.

The only thing I believe will entice the younger generation into the real estate market in a big way is **higher price expectations**. **But higher price expectations are a learned response to a long term experience of watching prices go higher!** We will see, but this does not seem like the point in time where we are going to see a huge jump in real estate prices when there are more threats to interest rates rising off the zero level than the hope they will drop lower.

The title of this section of the editorial is *Generation 2.95.* I thought of the title while talking to a banker last week and he made the comment, *"We are dealing with an entire generation who has never paid more than 3% for a mortgage!"*

What this low interest rate has really done is it has allowed massively large sums of money to be borrowed relative to income! So again, why have there not been a larger number of younger people running out to buy real estate? Because their price experience has been that real estate does not go up in value…it has been mainly flat!

**Now don't get me wrong, *Generation 2.95* understands how to borrow!** Wow, they borrow for anything and everything when it comes to fun and personal consumption! Hey, there has not been an IPhone yet that Gen 2.95 hasn't liked!! And cars? You can't run a long enough amortization period for car debt for Gen 2.95! No, borrowing is not a problem…just borrowing for real estate.

Ok…where are you going with this Nick?

I keep trying to imagine where and how **actual savings (not more debt) begins to find their way into the economic system?**

Every time I look to see where the money comes from to "purchase" an asset I always find another pool of debt….not savings!

My latest endeavor was to look at Generation 2.95. Just like every other generation before them, Gen 2.95 is the entry level purchaser in the real estate market. **But they are loaded with debt BEFORE they make their first real estate investment!**

This comment is not trying to say real estate prices are not going higher. As a matter of fact, as I commented on back in October, I think 2015 will be the strongest real estate market in Canada of the next three years! The challenge I continue to see is there is very little organic savings going into the market…it is all just a big pile of debt that keeps growing.

If interest rates stay low for years, this still may be as good as it gets price-wise for real estate.  (We would simply see prices level out and hold in value.)  I continue to believe that investors in all asset classes MUST stay vigilant in defending against declines. Stay vigilant!

***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.***