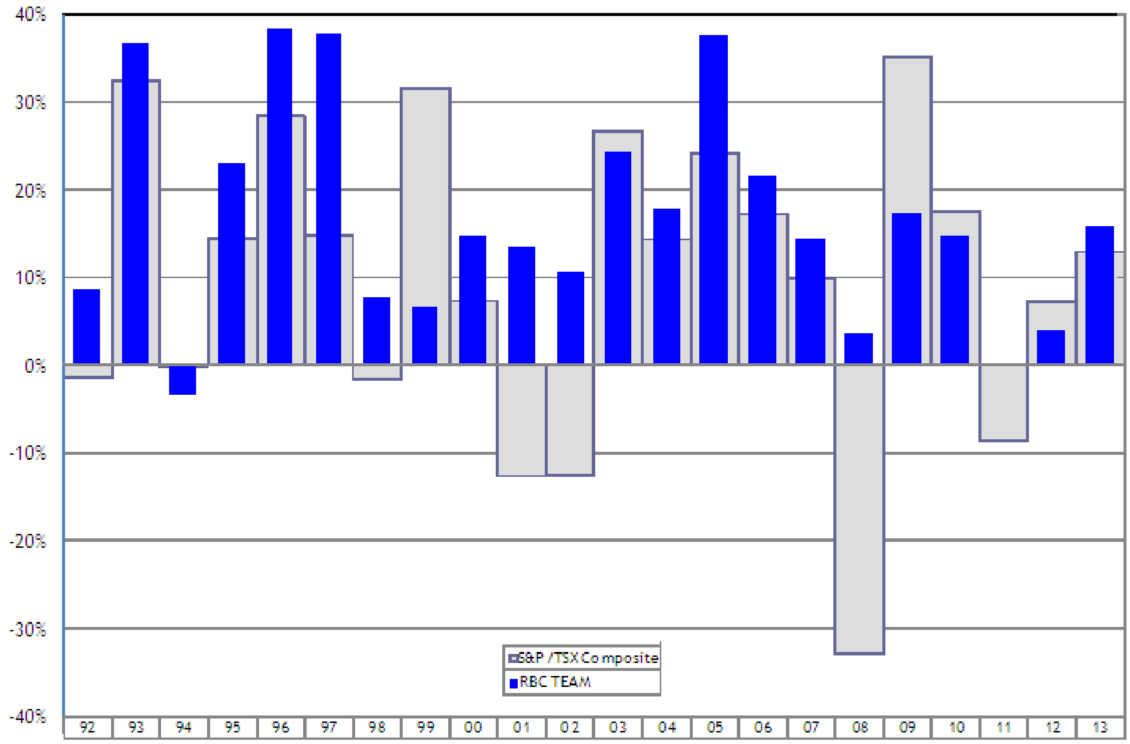
January 12th 2015

"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: 14,265
TSX 200 Day Moving Ave: 14,822
% Above/Below 200 Day Moving Ave: **-3.77%**
Levels for change: 100% stocks - **TSX 15,560** and 100% fixed income – **TSX 14,080**

Weekly Quote

At first, misallocation of resources resulted when money became (basically) free after the Fed lowered its interest rate to zero. Next, the market's normal functioning was altered, and price discovery distorted, when the Fed decided to embark on QE1 and QE2. Finally, when QE-infinity was introduced, price discovery was completely demolished. It even triggered talk of an equity market 'melt-up'. – **Scotiabank's, Guy Hasselman**

Two Clerical Notes

- Monday, January 12th I had a surgery done on my right hand. My ability to type will be lost for about two weeks. I will only be away from the office for the one day but I will not be able to write a weekly comment until the 3rd week of January. If something really warrants a communication I will send out a short (one finger typed) email. Thanks for understanding!
- Tax Free Savings Account (TFSA) contributions can now be made for 2015. The limit is $5500. Please call me if you are ready to move money into your TFSA or if you have any questions about the accounts in general.

European Quantitative Easing?

Let's keep this short. **The stated purpose of Quantitative Easing (QE) has been to:**
- suppress interest rates
- stimulate the economy

I have never really believed that to be QE's main purpose. **My feelings have always been QE was invented to:**
- save insolvent banks from their leverage mistakes
- not force them to correctly account for assets on their balance sheets.

The reality of why QE was done has been debatable in the past. Both perspectives above could be supported by the data.

But if Europe actually does QE now there will be no more debate. Interest rates are at 700 year lows and "negative" in 9 out of 18 nations. The position that QE is purposed to lower interest rates and stimulate the economy will have lost all credibility.

Falling oil prices have turned out to be somewhat of a "game-changer" for the central banks. Crashing oil reflects directly upon the inflation figures being published around the entire world.

Unfortunately, QE does nothing for the factors surrounding crashing oil.

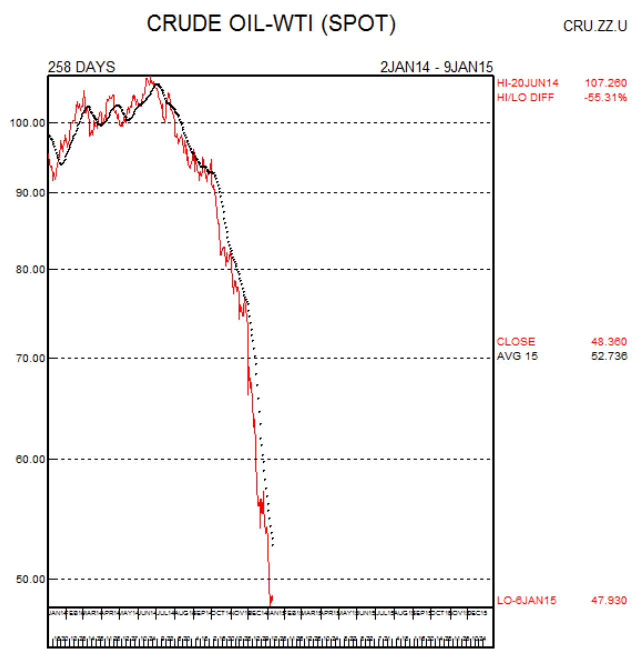
Please don't get caught up in the media "spin" about what Europe is attempting to do with its coming QE program! **European QE is a completely messed up financial system trying to keep itself going rather than let a healing process begin where bad debts are written down and markets move forward again.**

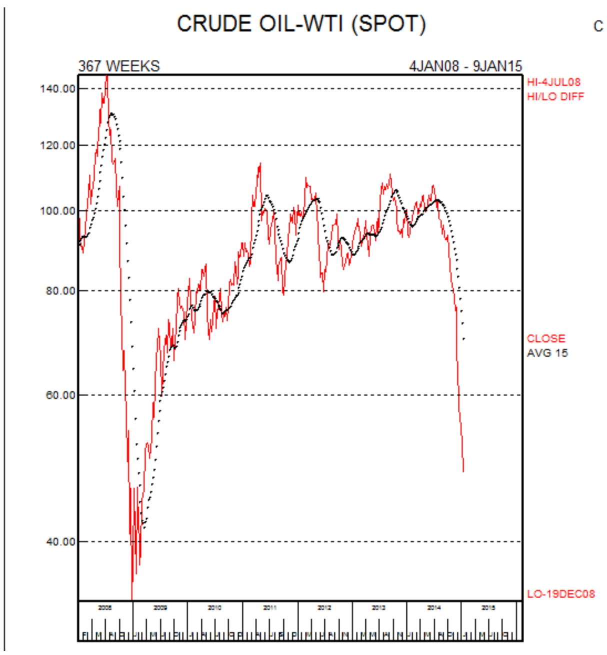
Canadian Housing Market

Simple theme here: **Much of Western Canada's real estate market is dependent upon the oil industry. Oil is in a "*world of hurt*" right now. How long will it take for the low oil prices to make their way back into the real estate markets of our part of the country?**

Let's flesh out the facts first.

Number 1: Oil prices have declined dramatically. (1 year and 7 year charts)





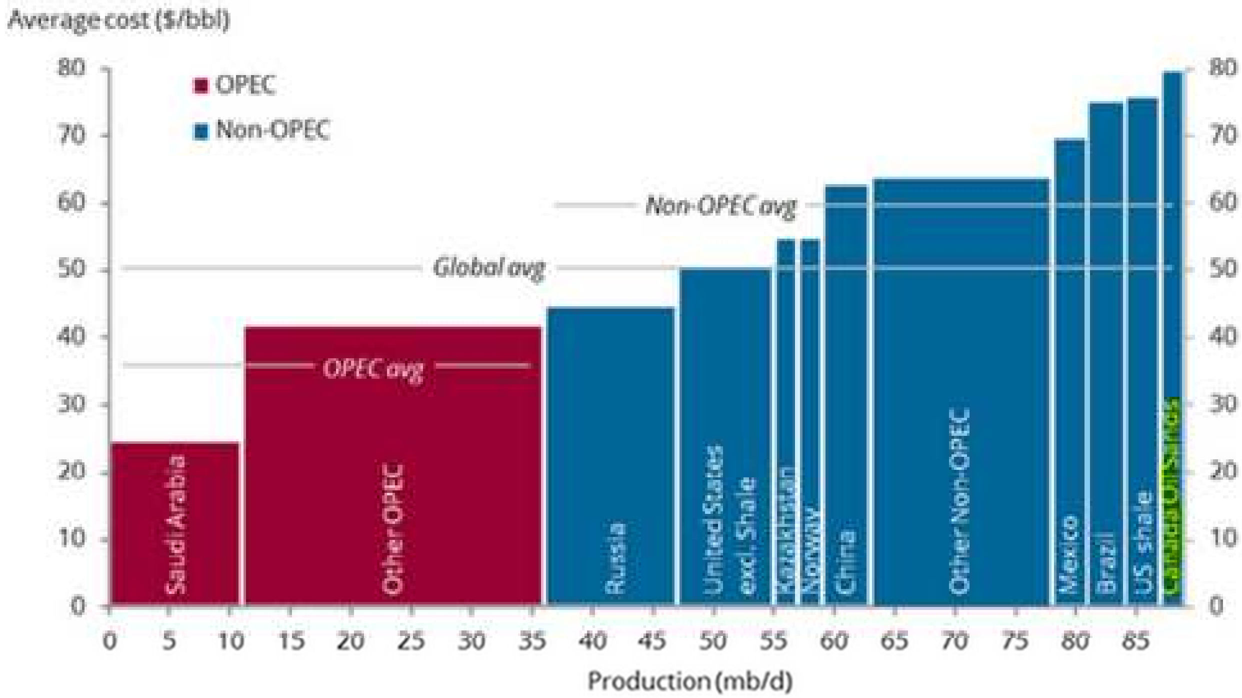
That was the obvious part of this comment.

But it is rather disturbing how quickly oil declined from $60.00 down to sub $50.00 US per barrel. (Note I am using West Texas Crude prices for my example)

Already in 2015, we have seen a great number of companies announce layoffs or program cancelations or both. Investors need to let the oil price stabilize before considering any further action in the oil sector.

Realize now that six weeks ago, $75.00 oil was supposed to be "a low for the trend". Now, it takes a 50% increase in oil prices just to get back to the $75.00 level. Believe me, 50% increases are not all that common in financial markets.

Below is a chart showing "breakeven" levels that West Texas oil needs to trade at for different areas of oil production.



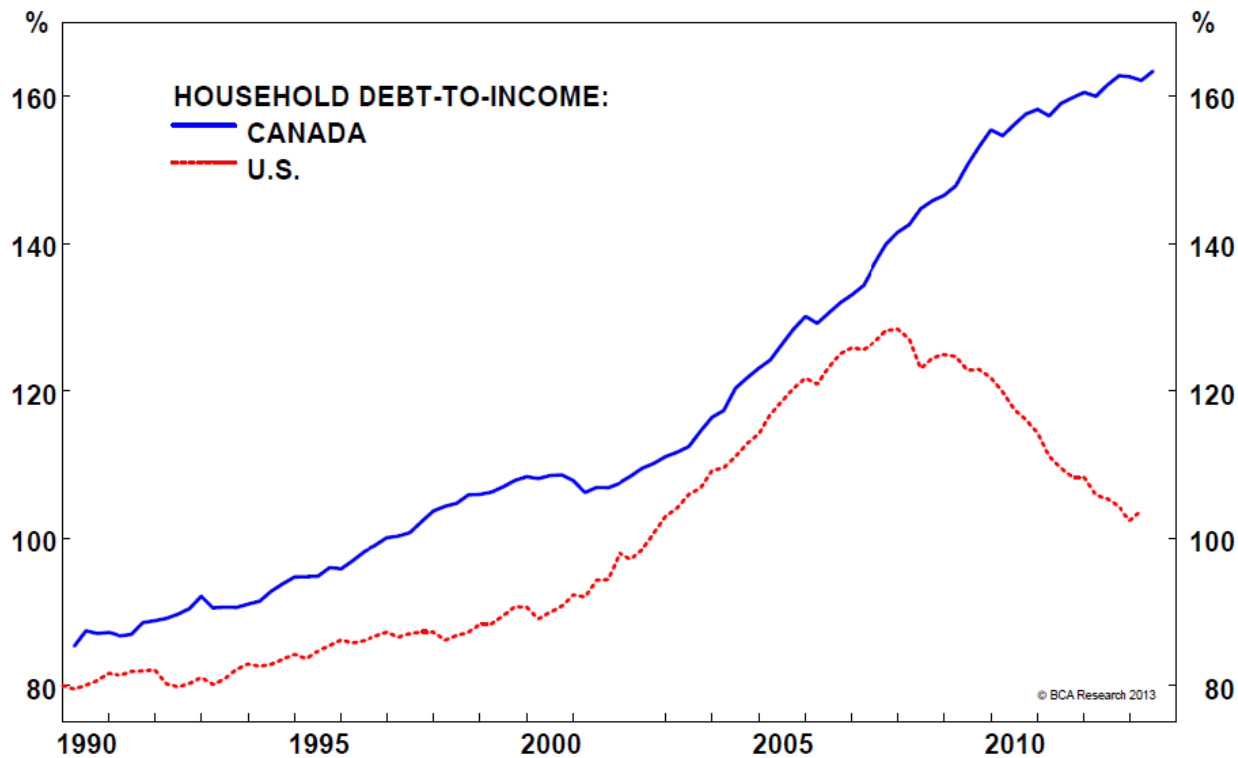
Where the real estate markets connect to the oil markets in Canada is in the area of wages. In Western Canada, a great number of our high paying jobs reside either directly in the oil sector or are a spinoff of these wages. *The people with the high paying jobs are the ones that tend to buy the nice houses and qualify for the big mortgages necessary to buy the nice houses.*

Canadians basically sat out the last real estate downturn that ravaged much of the world. Oil related jobs were one of the two main reasons we missed it. (The other was the continuation of Chinese investors in Canada.)

As the old expression goes, "*stability breeds complacency*" and Canadians have become too comfortable carrying high debt levels.

The chart below really takes one's breath away. It was created by BCA Research. BCA has been one of the world's leading global macro research companies and has been around since 1949…they are a reputable company.

So now, look at the data on the next chart.



I struggle to believe what I see in this picture. **But taking it at face value requires me to be VERY concerned about how damaging the drop in oil prices may be to good paying jobs and the Western Canadian economy in general**.

It would likely require a number of months for all this to catch up to the real estate markets. **But if I had a piece of real estate I was considering selling in the next couple of years I might try to get in out a fairly strong market that exists today rather than waiting another six months.**

Just something I would keep in mind.

<u>A Quick Look at the US Dollar Index Again</u>

The two charts I continue to focus on in these weekly comments have been oil prices and the US dollar index.

As stated above, it will be interesting to see if we begin to establish some "lasting affects" from sharply lower oil in other areas of the economy. It is still too early to make many predictions this way but we should be on notice to watch these trends.

The US dollar has maintained a fairly relentless "rip" to the upside during the past 5 months. It truly is a mirror image with oil.

Please keep in mind, until this chart stops its' run to the upside markets will remain unpredictable and volatile.

At this point, there is no change in the charts trajectory.

We will keep a close view.