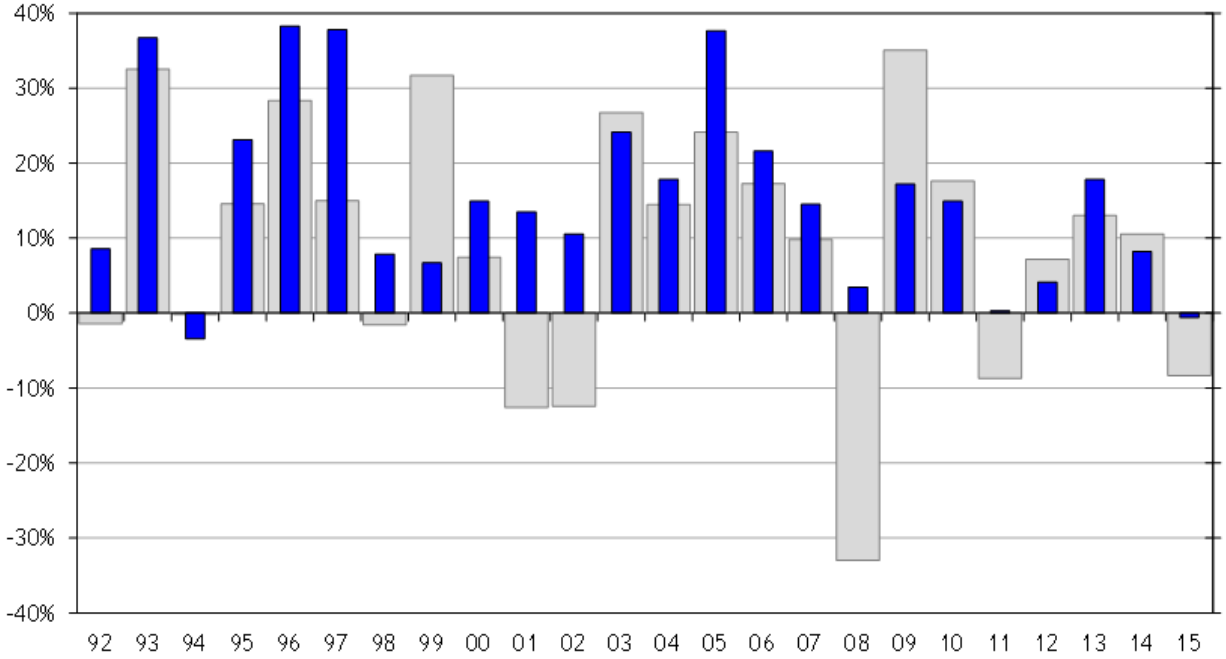
July 11th, 2016

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation:	100% stocks
S&P/TSX 60 Closing Value:	14,260
TSX 200 Day Moving Ave:	13,392
% Above/Below 200 Day Moving Ave:	**6.48% Above**

Levels for change: 50% stocks - **TSX 14,061** and 100% cash at – **TSX 12,722**

Weekly Quote

"The pool of global negative-yielding debt is climbing"

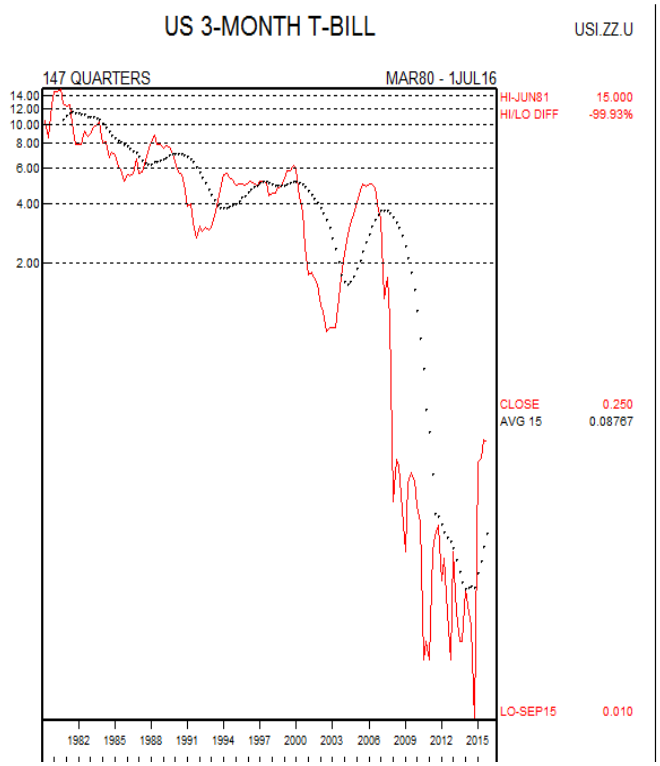
Bond Yields…What are They Really Saying?

The crystal ball that sits on my desk gave me a new message this week…It said, "*you are asking too much of me with these markets*!"

Seriously, markets are getting really tough.

This section is going to start out simple, and then, get a bit more complicated at the end. Please follow along for the easy part. If the middle gets too tough to understand, please jump right to the conclusions at the end.

The first charts show the yield on the American 3 month Treasury bill and 10 year Treasury bond back to 1980:

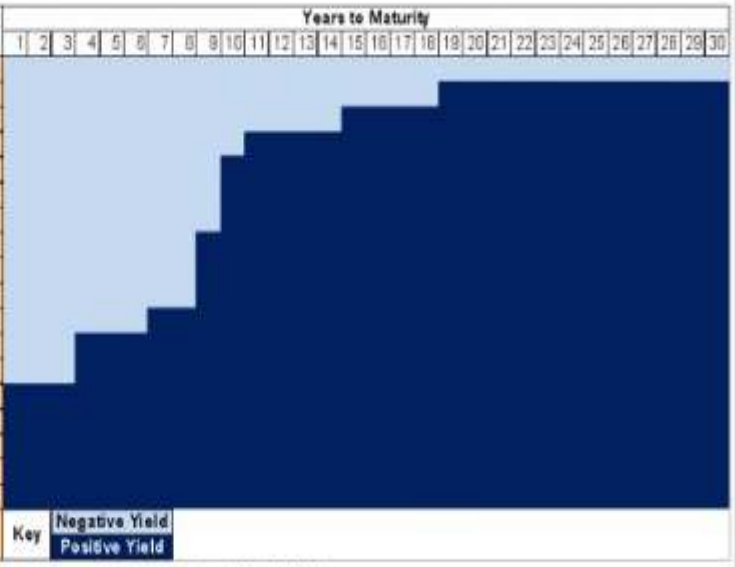


The US 3 month T-Bill has been less than .25% since 2009. The 10 year bond is making historical low at 1.35% as I write these words.

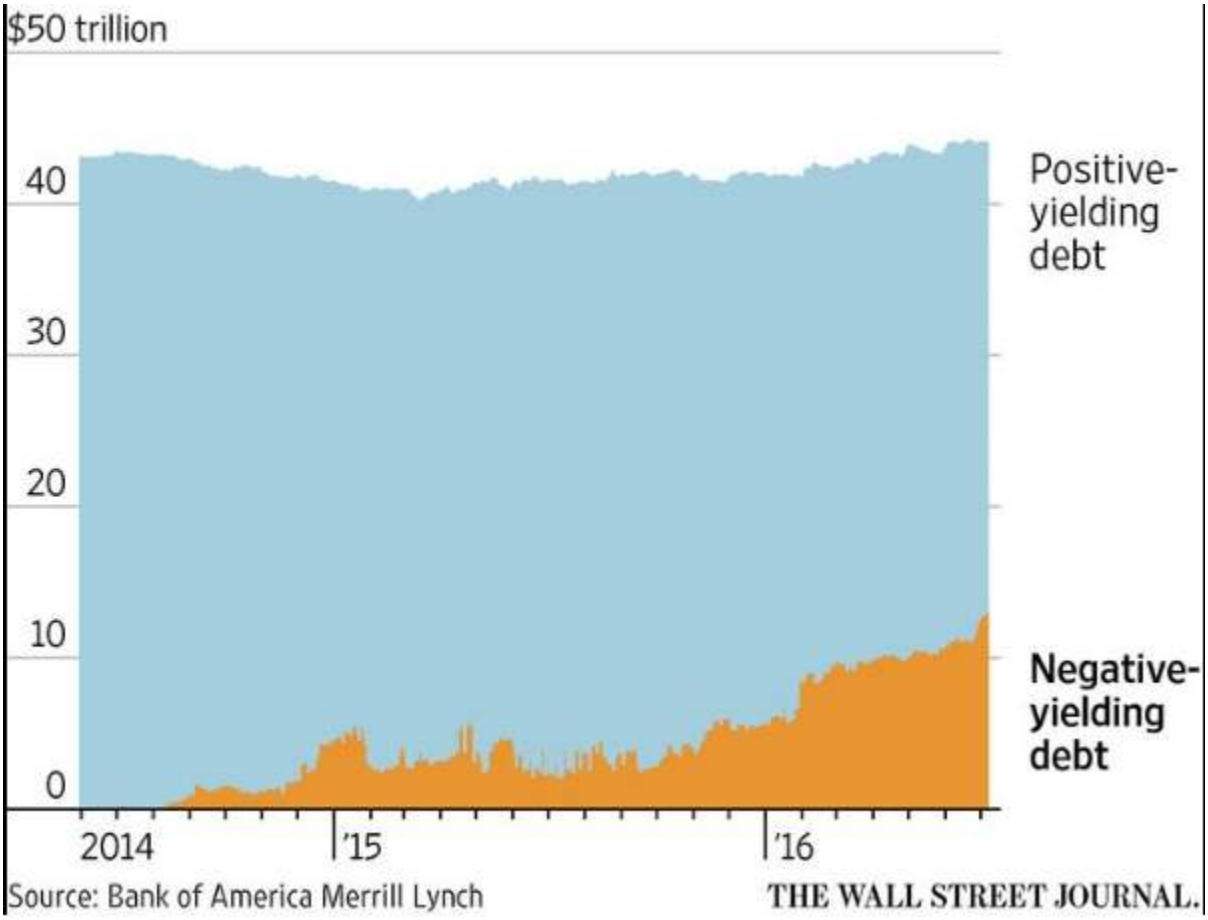
As mentioned last week, more than $12 trillion U.S. in global debt investments now yield zero or lower interest!

Figure 1. 35% of Citi WGBI is currently trading negative*

		Market Value (USD bn)	% trading negative
Country	Switzerland	40	100%
	Japan	5,199	79%
	Germany	1,223	77%
	Netherlands	401	67%
	Denmark	115	56%
	Austria	256	61%
	Finland	100	71%
	Belgium	422	49%
	France	1,645	59%
	Sweden	83	71%
	Ireland	133	54%
	Spain	808	25%
	Italy	1,579	20%
	US	7,089	0%
	UK	1,276	0%
	Australia	317	0%
	Norway	42	0%
	Canada	335	0%
	Total	**21,164**	**35%**



Source: Citi Research *excluding Poland, Malaysia, Singapore, Mexico and South Africa (around 2% of WGBI).



What makes the world's yields come crashing down? What does it mean going forward?

I'm going to leave the first question alone…I just don't know why the yields are crashing. The second question is worth taking a stab at.

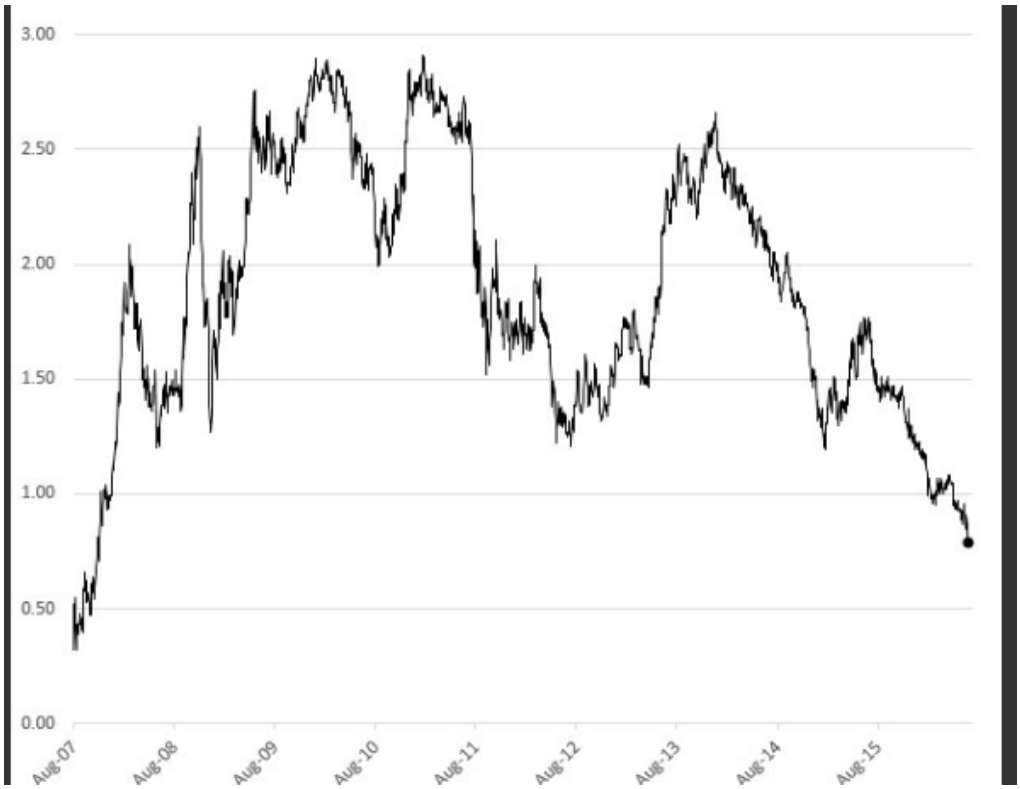
I believe message going forward is the onset of a recession. The four best predictors of an oncoming recession have historically been:

1. Level of interest rates
2. The unemployment rate in the county/economy
3. The "shape/slope" of the yield curve
4. Global Purchasing Manager Indexes (PMI)

Because of the central bank "involvement" in the present economic cycle since 2008, my personal bias is to not rely on any of these indicators quite as religiously as before.

My personal favourite of the four indicators has always been the shape of the yield curve. If short term rates are "flattening" to long term rates it has always been a good predictor of economic slowdown.

The first two charts shown at the beginning of the weekly depict the US 90 day Treasury bill yield and 10 year Treasury bond yield separately. Now I am going to graph the short term and long term bond "*relative to each other*" so you can see the ratio closing. (flattening)



As the U.S. economy exited the 2008 recession the yield curve steepened…now it is on a flattening trajectory.

But I don't believe this indicator is as important or reliable as it has been in the past. It is telling us something is changing but not with the same clarity or timing as in previous cycles.

The more I think about it the more I believe "asset prices" will be the driver of the next recession! (I don't think this is a huge stretch because asset prices have driven the post 2008 expansion generally.)

There is a popular acronym that the financial media loves to throw around. T.I.N.A – which stands for "there is no alternative". What they mean is "**there is no alternative to owning stocks when interest rates are so low**!"

I am challenging believers in T.I.N.A. that, ultimately, there will be alternatives. The alternatives will become clear once asset prices do the same thing they do in every bubble in history…they collapse under the weight of their own success!

When everything gets to be upside down…the best approach is to stay humble, stay plugged in to what is happening around you and don't make any radical choices**. Let a change in trend develop before getting too quick to pull the trigger**. There are so many bizarre things happening that one risks missing a lot of opportunity by getting too strong in their convictions.

Bottom line:

Asset prices have kept the global economies flowing. Stocks, bonds, and real estate continue to either increase or hold their values. The U.S. consumer has hung in there nicely too! These are the good news stories.

On a global basis, consumer prices continue to struggle. I believe the divergence in asset prices and consumer prices can be partially attributed to the income gap that exists around the world.

Check out the following chart of global consumer prices:

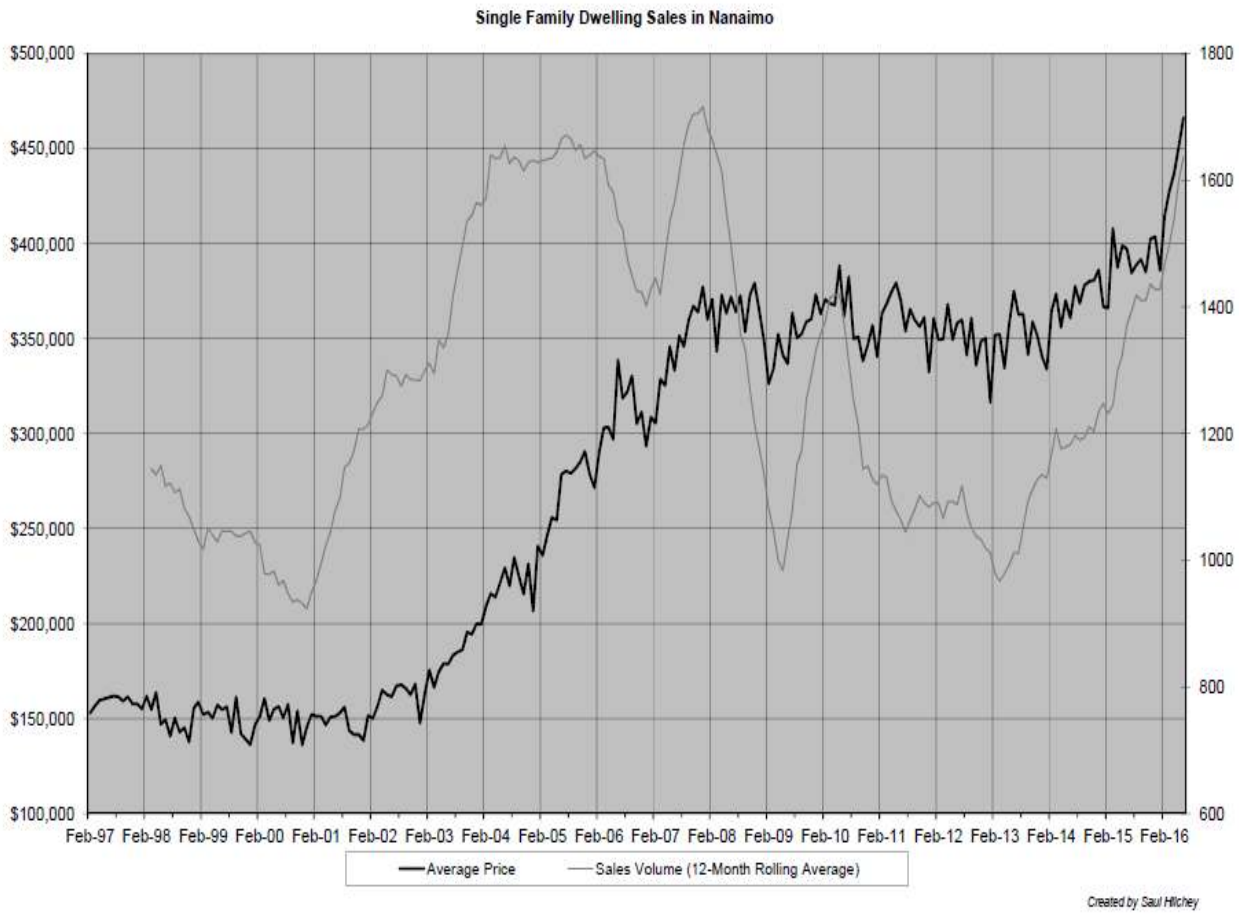
All of the modeling that I do says to stay BULLISH. But I have been recommending that investors begin to harvest a few profits…especially in the most over-valued areas of their portfolios.

Finally, keep watching the bank stocks from around the world. They were the best indicator of the 2008 recession…I believe they will be the same "canary in the coalmine" for the next recession.

Let me leave you with one thought this week. **Be careful what media news you expose yourself to**. There is simply too much news with too little fact checking being done in the world today…and with one click news spreads around the world and gets accepted as "fact". Only use trusted sources for your news flow. Be wary of CNN, CNBC, and the network evening news on T.V. They are competing for your eyes so, even though the story may be relatively factual, the presentation is done in a way to elicit a specific emotion or response from you. **Don't be manipulated by a world with too much information.**

Nanaimo Single Family Real Estate Prices

Again, a shout-out to Saul Hilchey for providing us with the following data about our local real estate market:



The Nanaimo Real Estate sales figures have been released for the month of June 2016. Attached is a chart plotting the associated data.

From May to June, the average sale price **increased** month-over-month by $15,282; from $451,208 to $466,490.

From May to June, the median price **decreased** month-over-month by $7,552; from $405,000 to $397,448.

From May to June, sales volume **decreased** month-over-month by 6 houses; from 210 to 204.

Notable items from the data:

1) Still climbing…Average Prices: Feb $414,828, March $427,786, April $437,232, May $451,208, June $466,490
2) Inventory is still down…"Last month's active listings for single-family homes totaled 1,621, down 33 per cent from the 2,425 reported in June 2015, a record low. The last time inventory levels neared the 2,000 mark was in 2006, when they dropped to 2,029".

Great stuff Saul…thanks!

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.