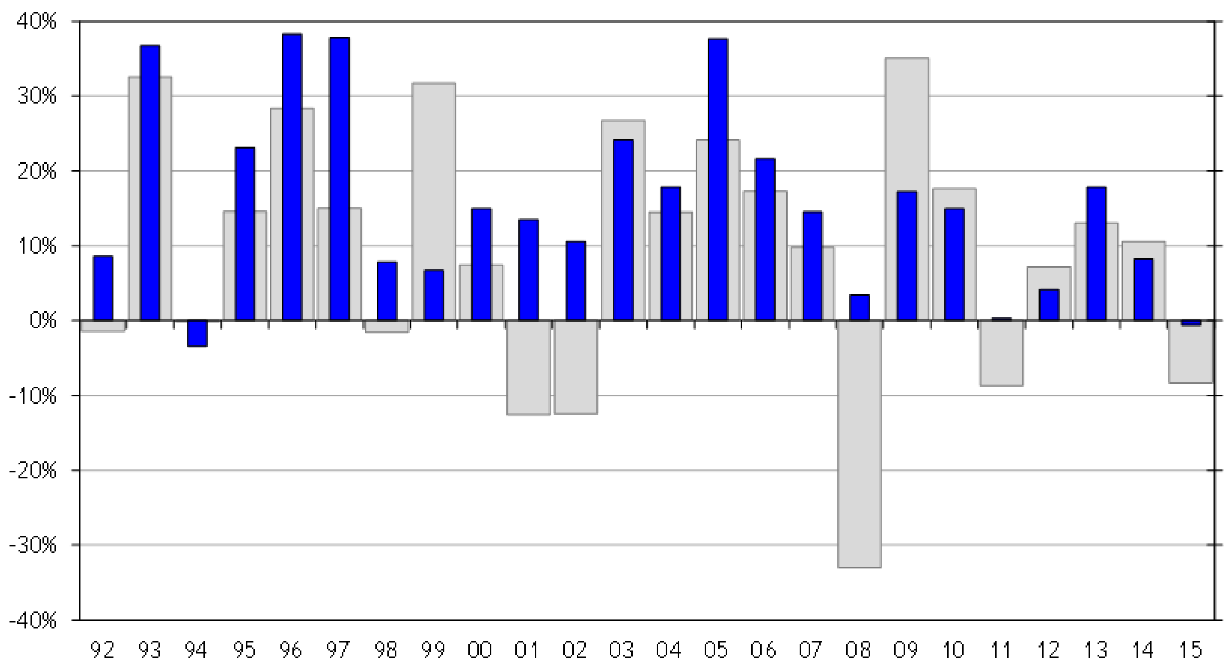
July 4th, 2016

"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: 14,064
TSX 200 Day Moving Ave: 13,376
% Above/Below 200 Day Moving Ave: **5.1% Above**

Levels for change: 50% stocks - **TSX 14,044** and 100% cash at – **TSX 12,705**

Weekly Quote

TEAM Update and a Weekend Thought

The TEAM I model remained 100% stocks at end of the month. (TEAM II which shifts asset mix on the 15th of the month is still 50% fixed income and 50% stocks.)

Thought: Interest rates keep on sliding around the world. **Approximately $12 trillion US worth of money market and bond inventory is now at a negative interest rate**. The "bond bubble" is now, unquestionably, the largest financial bubble in history!

What would you do if you lived in a country where any bond you bought out as far as five years would pay you nothing or you had to pay the issuer to own it? Add to that thought the fact that you could only get $100 bills from the bank so that even holding $100,000 in cash would take up a lot of physical space.

You look around you and see expensive real estate…expensive stocks…and obviously expensive bonds!

Would you think about buying gold or silver?

The knock on those types of investments have always been *"why own them because they pay you nothing."* Well, now there are lots of other investments that are in the same boat or worse…you have to pay to own them.

I will make the argument that some people are starting to reason this way.

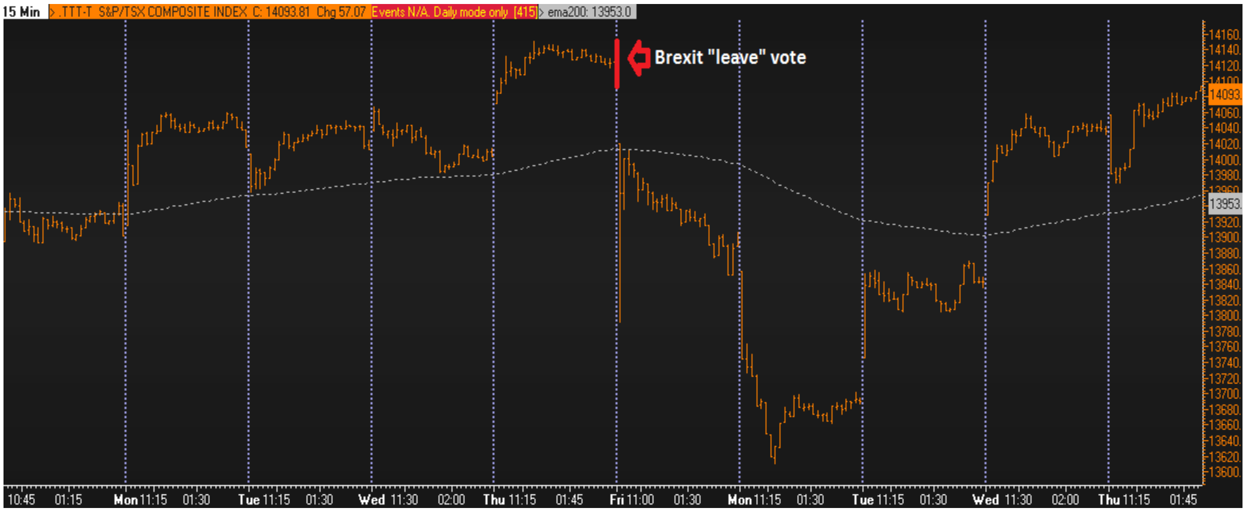
Friends, we have reached the "silly season of investing". We will try to be as wise as possible but I truly believe "anything could happen"!

Brexit…What Brexit?

I must start this section of the weekly comment with a confession. I did not bother reading any commentary where the person writing was telling "*what would happen because of the Brexit*". (I admit I did ask one colleague to tell me what Fidelity wrote for their macro opinion…but they didn't have one!)

Why? Because nobody really knew the answers and still doesn't.

And now, a week later, **asset prices just made a "round trip" down and back up again.** (TSX Comp shown below)



With that bit of information out of the way, I do want to make two comments that I believe are quite important surrounding Brexit:

1. **The Brexit "leave" vote likely pulls ahead the timing of the next recession to hit the global economy by 4 – 6 months**.
2. **The European banks are vulnerable to downside risks due to the destabilizing attributes of Brexit in the asset markets**.

The rest of the news about Brexit will be sorted out with time, lawyers, and lots of tax payer dollars!

One last point when looking at the way markets trade around the growing economic "dark clouds" surrounding the global economy. **Is anyone else tired of the way the central banks continue to inject themselves in the middle of problems they have no ability to solve?**

Using the Brexit example: *The unexpected Brexit vote happens…asset prices price in the real economic risks that come along with the growing potential for the European Union to break up…the central banks say we will "do whatever it takes"…asset markets recover since the central bank "will do whatever it takes"…wash, rinse, spin, repeat….*

The entire thing reminds me more of a movie plot than real-life economics!

Just for fun, look at the chart below and notice the standard deviation departure analysis of the FREQUENCY of the moves we saw in certain assets after Brexit.

Brexit Shock (June 24, 2016 returns)			
Asset	**% chg**	**z-score**	**Expected to occur once every X years**
GBP/USD	-8.1%	-12.9	167,797,632,298,823,000,000,000,000,000,000,000
IBEX	-12.4%	-8.7	3,713,040,717,549,940
MIB	-12.5%	-7.8	1,599,660,316,648
VIX	49.3%	7.5	177,825,145,201
Euro Stoxx 50	-8.6%	-6.5	76,707,798
CAC	-8.0%	-5.7	808,432
Nikkei	-7.9%	-5.7	678,963
USD/JPY	-3.7%	-5.5	247,274
DAX	-6.8%	-5.0	15,950
Gold	4.7%	3.8	63

Source: Dynamic Funds, Bloomberg

Don't worry about what each symbol stands for. Just marvel at the insanely low probabilities of the results that happened during Brexit…that actually occurred!

The moral of the story…**mathematically crazy stuff happens in asset prices where massive amounts of debt are involved.**

Brexit is just another symptom that brings the "anti-fragility" of the global financial markets into focus.

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.