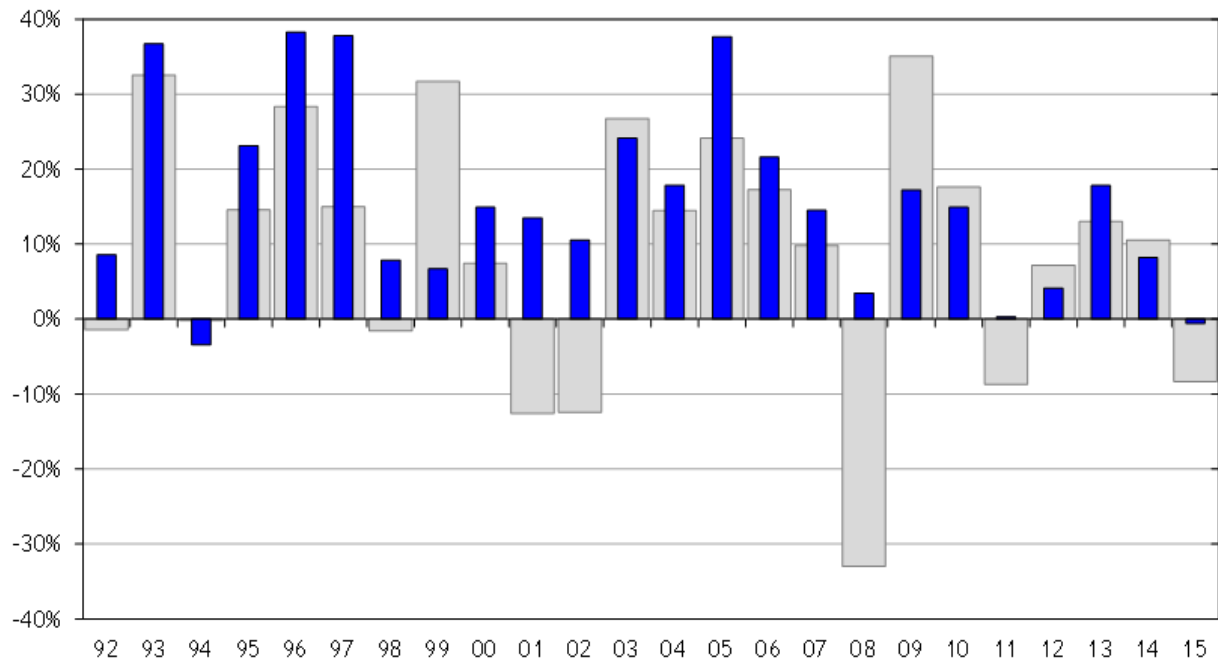


June 27th, 2016

“Won2One” with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

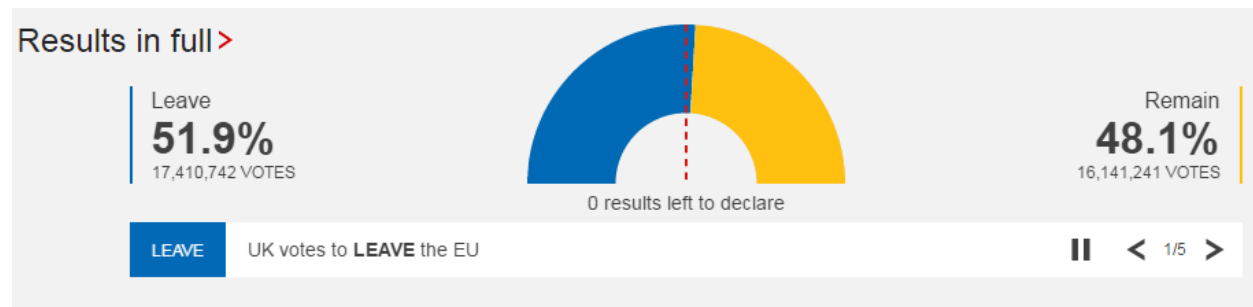
TEAM Model Asset Allocation: 100% stocks
S&P/TSX 60 Closing Value: 14,131
TSX 200 Day Moving Ave: 13,353
% Above/Below 200 Day Moving Ave: **5.8% Above**

Levels for change: 50% stocks - **TSX 14,020** and 100% cash at – **TSX 12,685**

Weekly Quote

“Nobody said it was going to be easy!” – Willie Nelson or Coldplay (depending upon your generation)

Brexit Vote Summary



The result of the “Brexit” vote was clearly a surprise to markets, politicians, and especially pollsters.

There is a lot of turmoil out there in the financial markets. I will not try to summarize it because it is changing quickly. But I will offer two thoughts:

1. It has been my opinion that the global economy has been slowing for quite some time as evidenced in declines in global long term interest rates, “flattening” of the U.S yield curve, and declines in global Purchasing Managers Indexes. (PMI) When I penned a short note earlier in the week I invited clients to call in if they felt the Brexit vote was going against the polls and be a “leave”. (Congratulations to six of you who did this on Wednesday!) **But the second part of that message was that my plan was to SELL some stocks into the markets when they went higher after the “remain” side won since economic conditions are slowing.** Today might not be the best day to start this process due to the surprise result, **but I believe Brexit only accelerates the trends of global economic weakness and, therefore, confirms the need to be careful.**
2. Precious metals may be starting a new longer term BULL market again. Gold breaking out above \$1317 is significant. The US Fed is definitely not going to raise interest rates now before the U.S. election. Uncertainty abounds...when selling some stock it might be worth buying some gold bullion with the proceeds.

The news will be packed with opinions and sensational stories over the weekend. Hopefully, the two points above give you something to actually do if you feel the need to do something!

Summary: Please don’t get caught up in the turmoil of Friday, June 24, 2016. The market moves today are a bunch of “traders” who got caught on the wrong side of a speculation.

At the same time, let’s not lose sight of the reality that the global economy is slowing.

The mountains of debt sloshing around the world are like bags of sand being tied around the waist of a mountain climber...the debt makes it all more difficult to navigate. Also, the decline in global productivity continues. (Summarized in June 6th weekly) By following the above analogy...that is like not giving any food or water to our mountain climber. Lastly, the central banks themselves are losing the faith of investors.

Each of the points in the paragraph above makes it more difficult financial markets to fend off the normal stresses that come their way. Prudent investors will “adjust” their portfolios accordingly...not make radical changes.

What is \$100 Bill Worth Today If You Can't Spend It For 10 Years?

With apologies to those who I have shown this to in my office, I have found this analogy to be useful to help people understand why negative interest rates are so stupid!

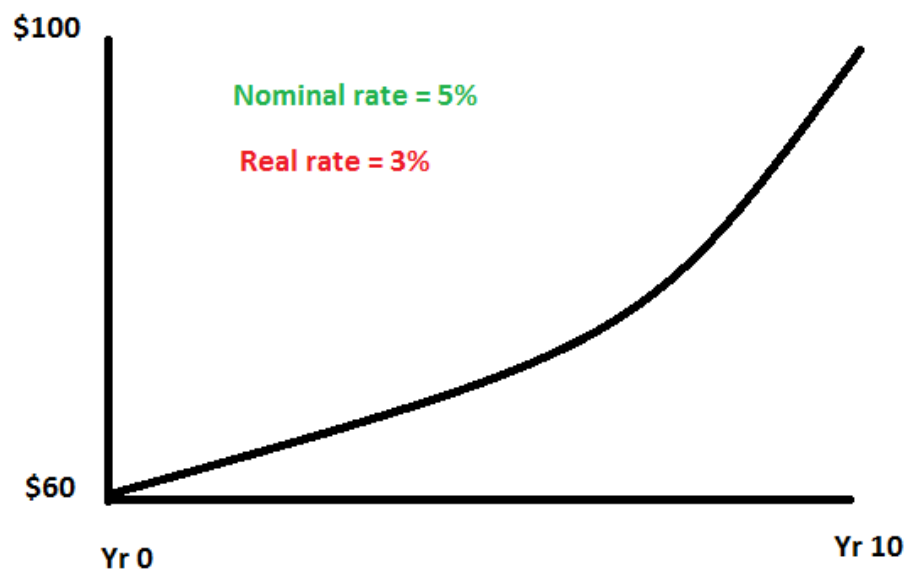
Here we go: *I pull a \$100 bill out of my pocket, give it to you, but tell you that you can't spend it for 10 years.* My question to you is; **how much are you willing to pay me today for \$100 that you can't spend until 10 years from now?**

First, let's consider the “tradition” (rational) argument as to what you might want to pay for the \$100 bill:

Clearly, you want to discount the price paid by the amount for the inflation expected for the next 10 years. If we assume a 2% inflation rate then you would only pay \$82 for the \$100 bill today **JUST TO BREAK EVEN!**

But you also want to be paid a return on your money and therefore you say I am willing to pay you \$60 today for the \$100 bill to be spent 10 years from now. **By paying \$60 today for the \$100 bill you can spend 10 years from now you are creating a total return of 5% on your “investment”.**

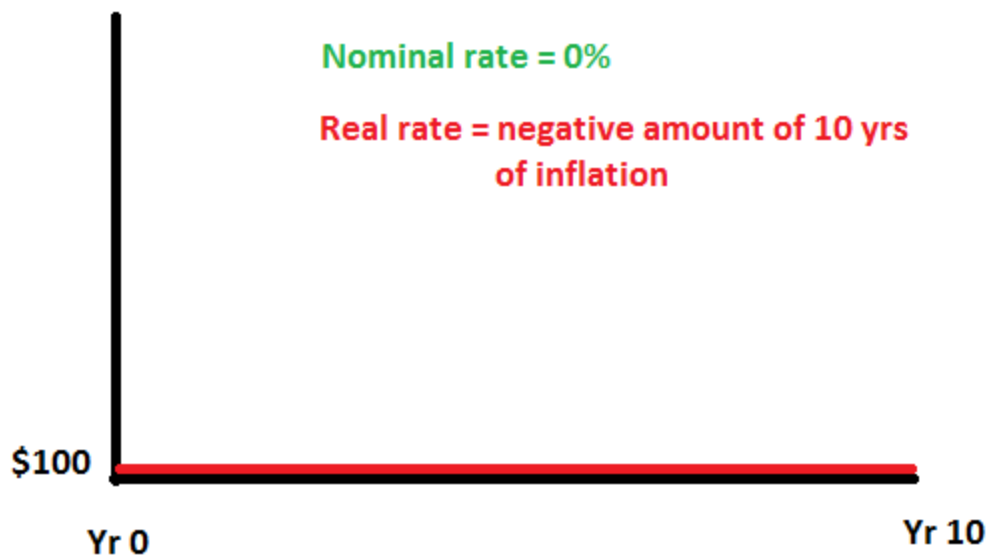
(Technically, we would say you are creating a 5% “nominal” or “before inflation” rate of return and a “real” or “after inflation” rate of return of 3%).



Now let's consider the situation where an investor is buying a German 10 year bond where the yield is 0% in light of the above analogy.

In this case the investor is paying \$100 today for the privilege/right to spend \$100 ten years in the future.

Why would anyone do that? Let's look at that concept on a graph.



Here we see a nominal rate of return of zero and the investor is going to lose whatever the amount of inflation is over the 10 year period.

So again, why would anyone do that?

The correct answer is: NOBODY WOULD! But there are \$10 trillion worth of government bonds spread around the world that are at 0% or lower.

I hope that helps you understand just how artificial negative interest rates are and how deep the central banks have their “fingers in the bond market pie”.

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.

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