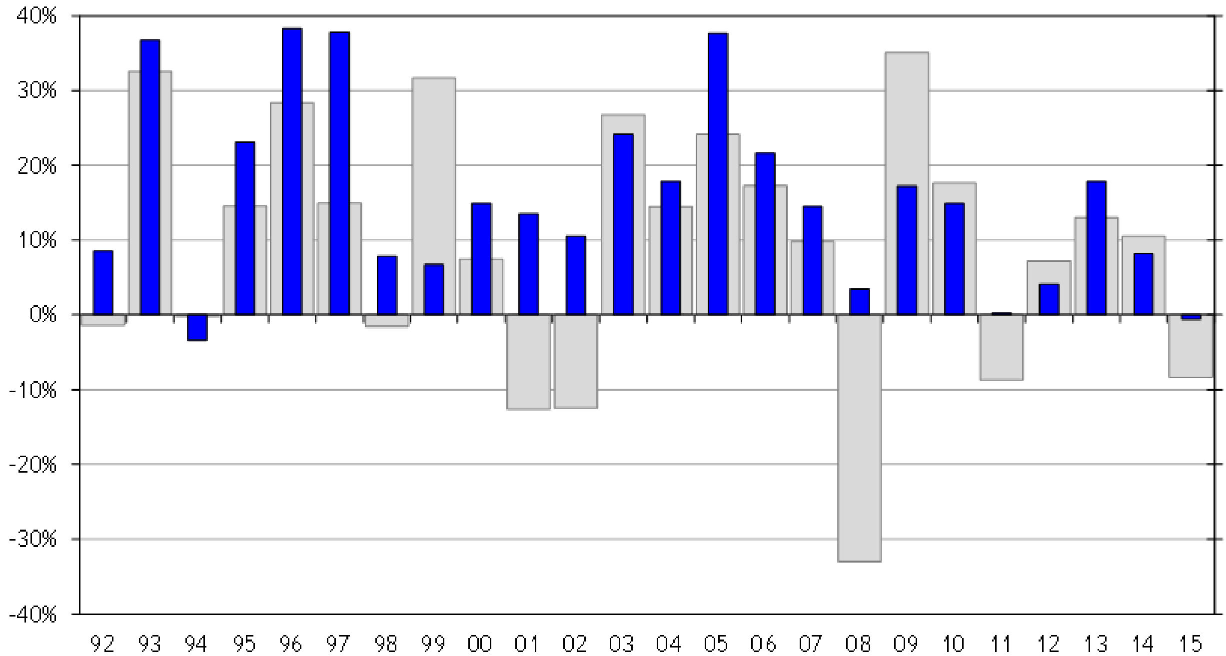
June 20th, 2016

# *"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: 13,902
TSX 200 Day Moving Ave: 13,353
% Above/Below 200 Day Moving Ave: **4.11% Above**

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

*Weekly Quote*

"*Raise the floor on interest rates to 2% and vow never to again breach that floor*".

Danielle DiMartino Booth – The Vanity of Central Bankers and the Common Sense Rule

*Introduction Note from Danielle DiMartino Booth*

Dear Colleagues,

One year ago today, I introduced myself to you with *The Great Abdication*, a treatise on my reflections of the Federal Reserve, an institution to which I had dedicated myself for near on a decade.

One year later, precious little has changed. Other sovereigns continue to borrow for 50 and 100 years at the lowest interest rates recorded in 5,000 years while the United States idles on the sidelines. It remains politically palatable to hide behind short-maturity issuance coddled by interest rates that remain at artificially low levels. It's still easier to lie to the public, feigning frugality. The Great Abdication of our political leadership to the Fed has yet to be broken.

Central bankers, for their part, remain resolutely vain, diving further into the netherworld of unconventional policies convinced that their increasingly complex models will eventually do their bidding and heal the world's economies.

If only common sense had a place at the table. Will it ever? Will discipline and rationale ever make a comeback? We can only hope change is on the way, change that gives the next generation of leaders the resolve to question orthodoxies that have been raised on pedestals like so many ancient deities.

A personal note of thanks: I am humbled by your readership, by your welcome feedback and yes, constructive criticism, and even by those dreaded after-the-fact typo catches.

Nick comment: A very candid assessment of the Fed. Danielle was a Fed member working directly with Stanley Fischer. She is a person who really gets what the Central Banks do and how they operate. I recommend for those of you who read weekly commentaries that are a little outside the normal scope of the media…add Danielle DiMartino Booth to your list! She publishes on Wednesdays.

*Global 10 Year Government Bond yields*

On a monthly basis, May of 2016 was a historic month. Why?

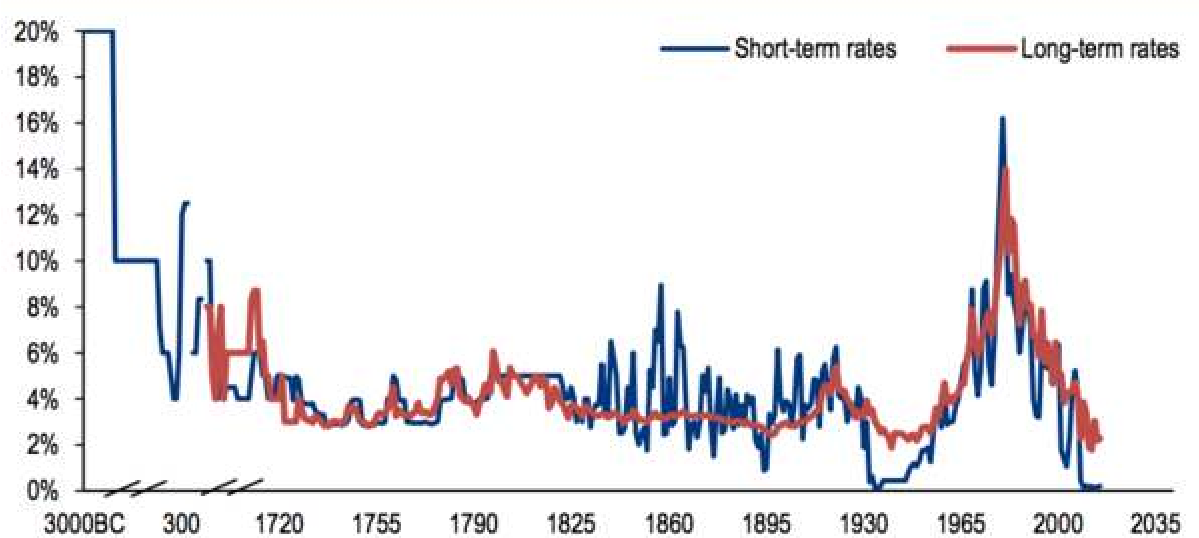
Because the global **average interest rate** was the lowest in recorded history. Now that is quite a statement!

If you had asked me 20 years ago what the world economy would look like if the interest rates were at all-time lows I would have answered that **asset prices would be cheap and that deflation would abound**.

Clearly, that is not where the world's asset prices reside today.

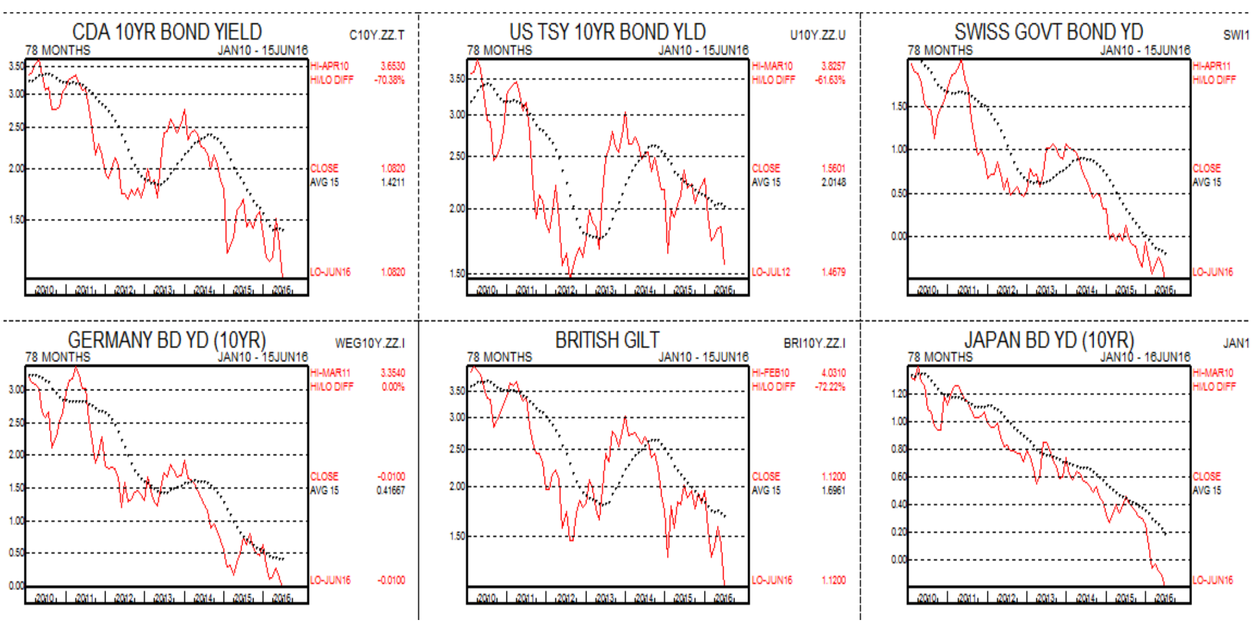
Take a look at the chart below and think about what it is saying…incredible!

**Chart 1: Still the lowest interest rates in 5000 years!**




I'm not sure what the creator of the chart used to determine interest rates from 3000 BC but it makes for an interesting concept to think about.

The charts below show last 7 years for the 10 year government bonds in the major bond markets around the world.



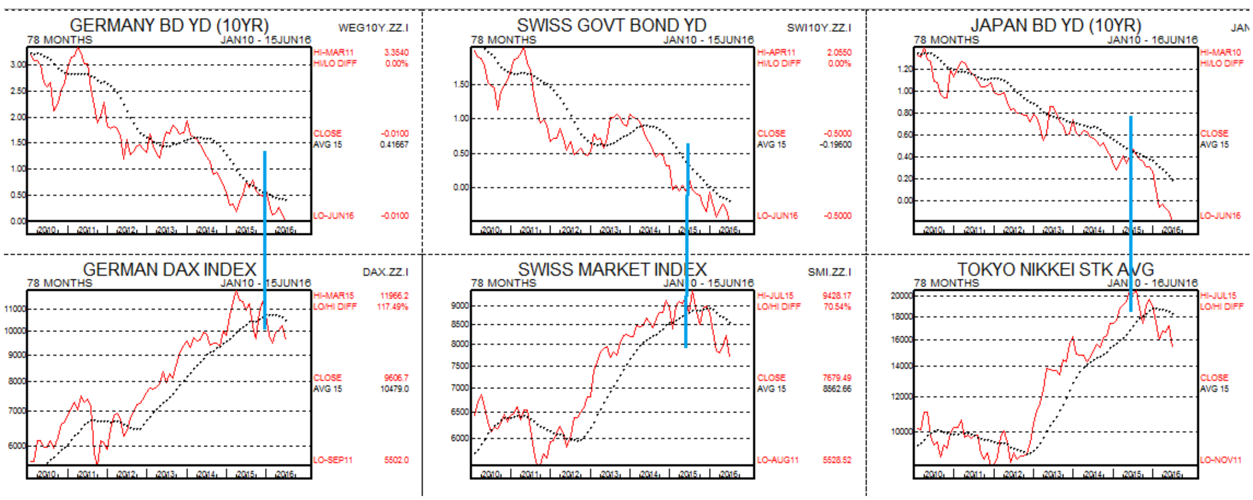

I know they are a little tough to see. Just notice how all of them are at or near their 7 year low yields.

So what Nick?  Why are you telling me this today?  This is not exactly news!

I agree…low interest rates have been with us for the better part of 10 years.  But I am going to make a point that blends in with Danielle DiMartino Booths' comments in section one of the weekly.

**For most of the time since the "great recession" of 2008, as interest rates tracked lower, asset prices tracked higher**.  That relationship is not as clear today as interest rates have dipped into negative territory in Germany, Switzerland, and Japan.

Below I will chart each of those countries stock markets and bond markets so they stack on top of each other.




To help you see the transition point I have put a blue line on each chart.  There is no guarantee this relationship has changed forever…**but it is significant that it is taking place near the zero bound or a negative interest rate**.

So here is the question for you to ponder:  **If lowering interest rates and printing money is not "helping" asset prices any longer…and maybe causing them to fall…what do the central banks do for an encore?**

We will have to wait and see…

***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.***