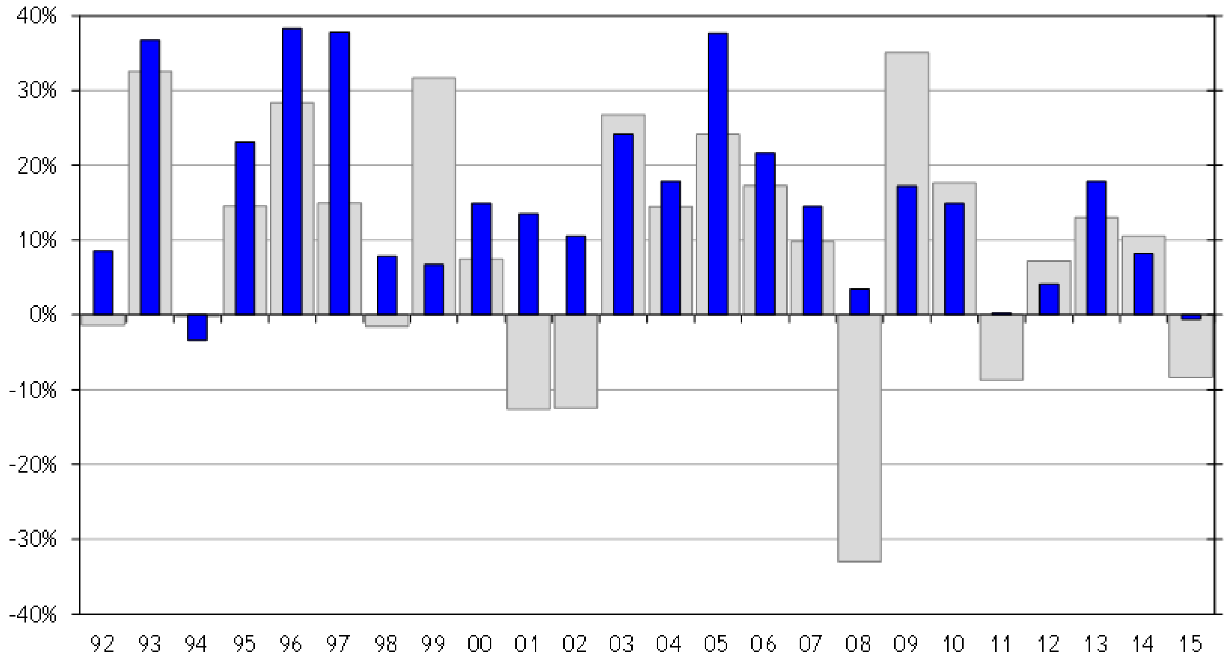
June 6th, 2016

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: 50% stocks and 50% fixed income
S&P/TSX 60 Closing Value: 14,227
TSX 200 Day Moving Ave: 13,330
% Above/Below 200 Day Moving Ave: **6.72% Above**
Levels for change: 100% stocks - **TSX 14,001** and 100% cash at – **TSX 12,701**

Weekly Quote

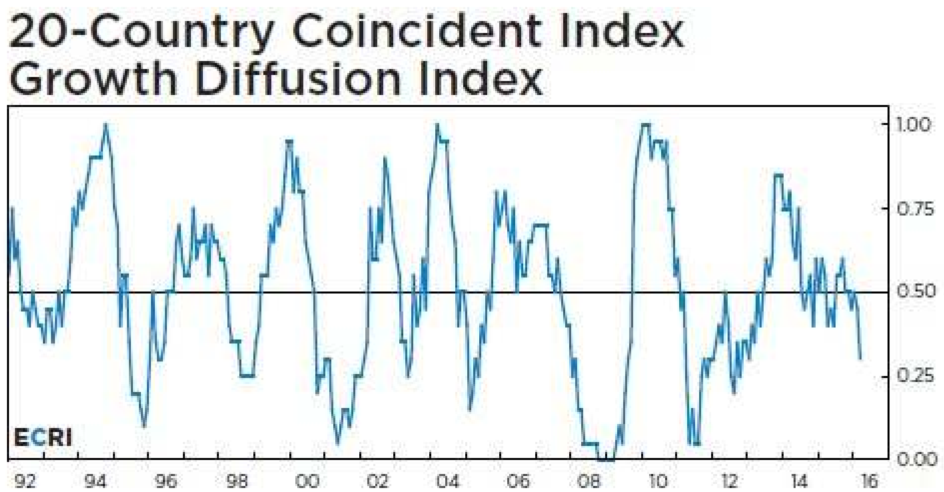
For some, this will graphic will make you smile deeply! See below…


Richard Scarry's
21st Century
Busy Town Jobs
helicopter parent
one-percenter
one-percenter service provider
brick and mortar dismantler
non-lending officer
BANK
BOOKS
climate change denier
super PAC money launderer
PED doctor
content creator
click
content aggregator
Media Company
NSA information gatherers
tech start-up P.R. disaster recovery specialist
web design complicator so that users will accidentally click on ads
fart-sound app maker
rage pundit
tech start-up executive
professional celebrity
reality show camera-man
paparazzo
lowly immigrant

<u>"The Death of the Virtuous Cycle" – condensed from 720GLOBAL research</u>

Despite many promises, there has been no <u>sustainable</u> economic recovery.

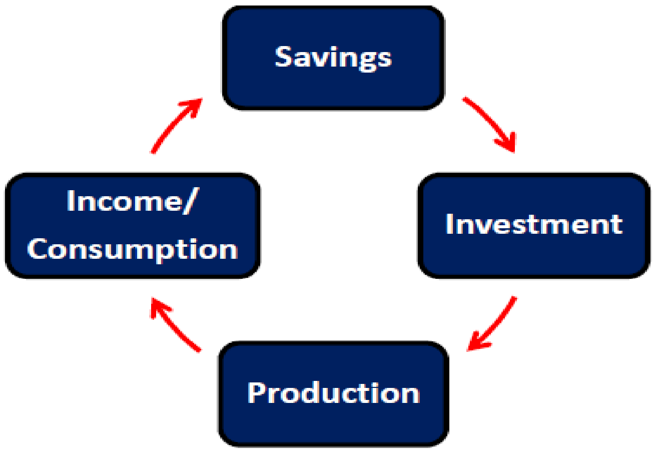
The United States, and the developed world for that matter, have made repetitive attempts over the last 16 years to return economic growth to the pace of years long past. These nations are stuck in a cycle in which hopes for economic "escape velocity" get crushed by economic recession and asset price collapse. Following each failure is an increasingly anemic pattern of economic growth accompanied by rising mountains of debt, which ultimately lead to another failure.



What follows in this article is evidence that current economic policy is not simply flawed in its logic and application **<u>but actually destructive</u>**.

As should be evident to all by now, these experimental monetary and fiscal policies provide short term economic relief but only serve to exaggerate the problems they claim to solve.

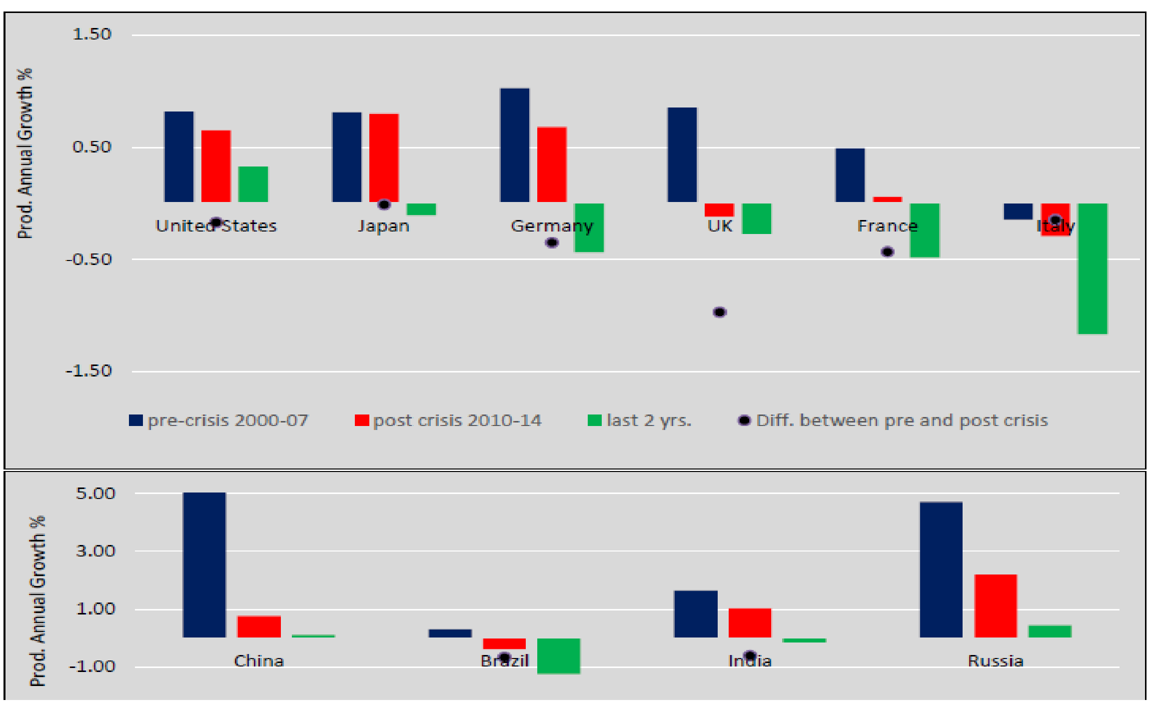
The elegant Virtuous Cycle that propelled western economies to prosperity has been quietly dismantled and replaced with an unproductive imitation. This new, Un-Virtuous Cycle euthanizes discipline and prudence in exchange for the immediate gratification of debt-fueled consumption.



In the virtuous cycle and a healthy economy, it all starts with savings. Saving is, by definition, ***consumption deferred.*** Once there are savings then there is room for investment and the rest of the virtuous cycle makes complete sense.

For short periods of time, when in the midst of a crisis, it is reasonable to short-circuit the "virtuous cycle" and debt finance consumption. No question 2008 qualified as one of those times!

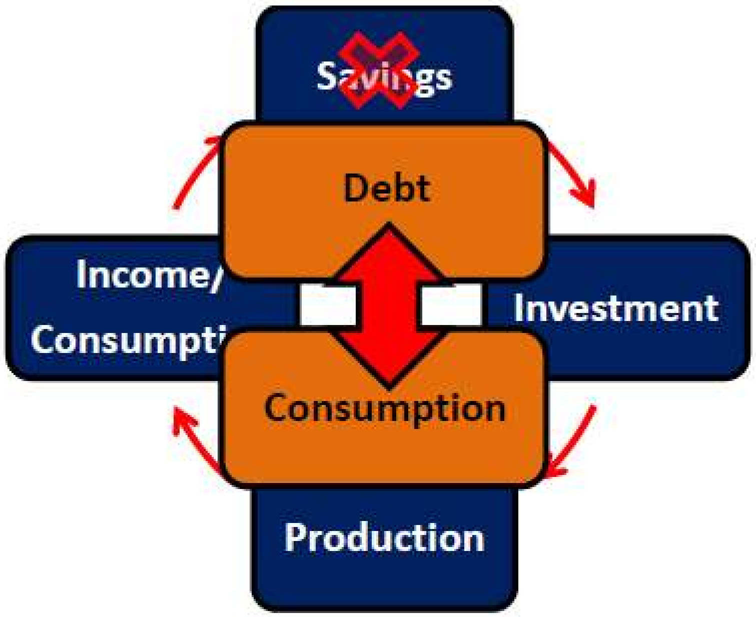
But look what happens to **productivity** when you leave "crisis policies" in place for too long. (Remember productivity required both "savings and investment" to happen before it could become an economic reality.)



The green bars representing the past two years are the most important. It is almost like the world has moved to an "economic stalemate". Why this has happened? Because the virtuous cycle requires SAVINGS!

So if the Savings-Investment-Production-Income cycle has been dislocated…what are we dealing with then?

Good question! The next chart shows you the answer.



It makes a strong impression because it is overlaid upon the virtuous cycle. Obviously, the Debt – Consumption process is like economic adrenalin and, makes sense to use **for short periods of time.**

Unfortunately, it is easy to visualize the "unhealthy" side of this process when looking at the overlay. Just as it is with the patient gardener waiting for seed to mature to crop, the organic goodness of the economy is strangled out with the Debt – Consumption model in the bypassing of the "saving/investment" part of the cycle.

Central banks are not stupid. They see the issues in the chart above. But rather than try to reset the "virtuous cycle" they continue to enable the Debt – Consumption cycle via *zero interest rate policy* and *negative interest rate policy.*

When you look at the chart below, try to imagine the interest rates in the countries on the matrix back at even 2% for a one year investment.

Two percent is not very high…yet it appears to be light-years from where we are!

Sovereign Bond Yields (%)

Country	Yield (%)			
	1-Yr	2-Yr	5-Yr	10-Yr
Switzerland	-0.514	-0.792	-0.731	-0.302
Japan	-0.265	-0.225	-0.225	-0.120
Germany	-0.529	-0.519	-0.378	0.146
Austria	-0.504	-0.483	-0.357	0.329
Netherlands	-0.180	-0.527	-0.401	0.352
Finland	-0.503	-0.470	-0.250	0.417
France	-0.488	-0.440	-0.188	0.481
Belgium	-0.500	-0.488	-0.323	0.521
Ireland	-0.175	-0.380	-0.055	0.779
Italy	-0.145	-0.160	0.214	1.131
Spain	-0.164	-0.099	0.482	1.503
United States	0.649	0.867	1.347	1.828

Data Courtesy: Bloomberg

Just to make sure you can picture how crazy the negative interest rate picture has become, on Friday, June-03-16, the U.S. dollar denominated amount of total bonds around the world with a negative interest rate attached went over $11 trillion.

Summary: Is there a pathway back to normalized interest rates…set by the markets without the interference of central banks? Can we leave the "Debt – Consumption" model and go back to the "Saving – Investment – Production – Income/Consumption" model?

The obvious answer is "who knows"? What I do know is we don't get there the way the central bankers thought we would get there…**by virtue of their insanely arrogant policies.**

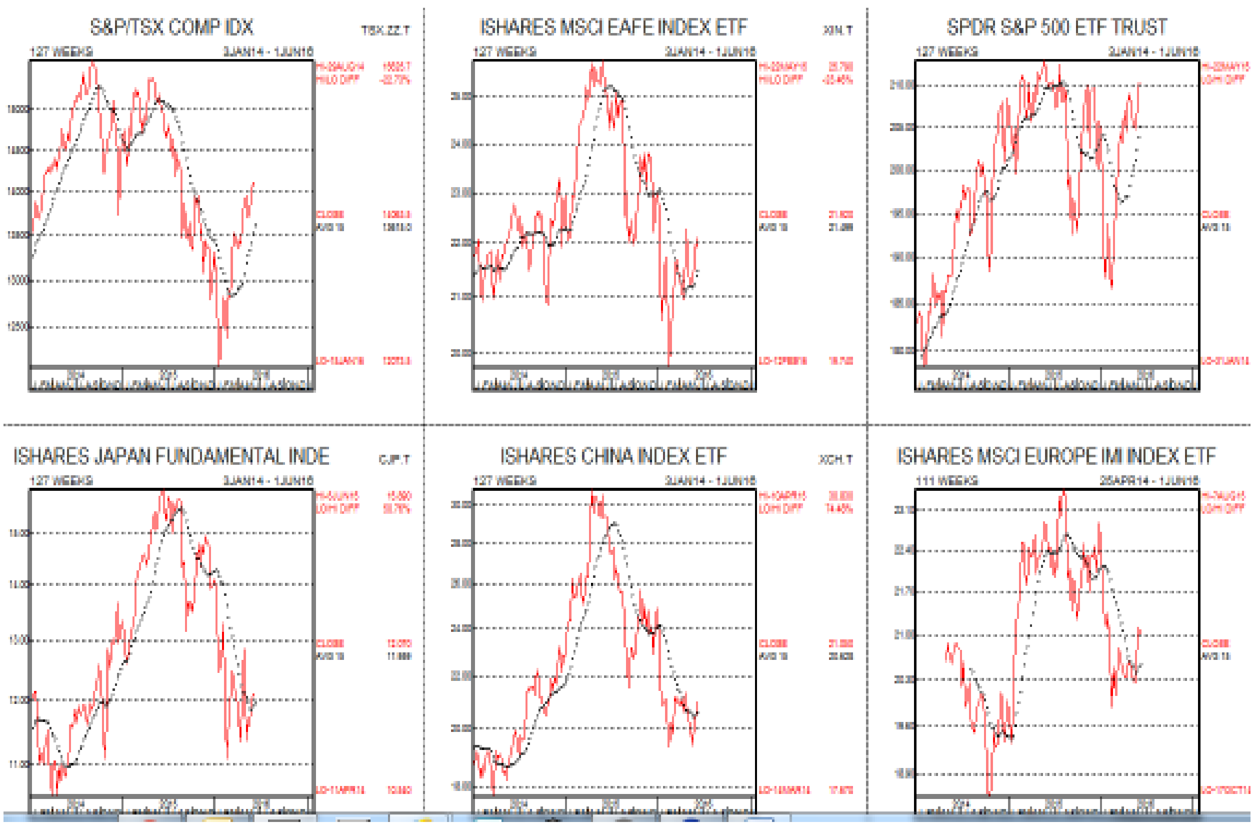
Stay alert and don't become too complacent. It is interesting to watch.

<u>Charts of Global Stock Market Performance the Past 3 Years</u>

It has been a while since we have looked at a series of global stock market indexes and regional indexes to gauge what price performance has been like.

You will notice I chose a 3 year timeline for the charts below. The reason I did this was because it coincides with the chart in section one of the editorial showing the time frame where “productivity” has come down.

Without the savings and investment, productivity will suffer. As productivity suffers, rates of return will become muted for growth based investments. (Just for the record, stocks and real estate are growth based investments!)



I would argue none of the charts above rev up my appetite for taking on more risk. At the same time, they don’t look to scary either.

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.