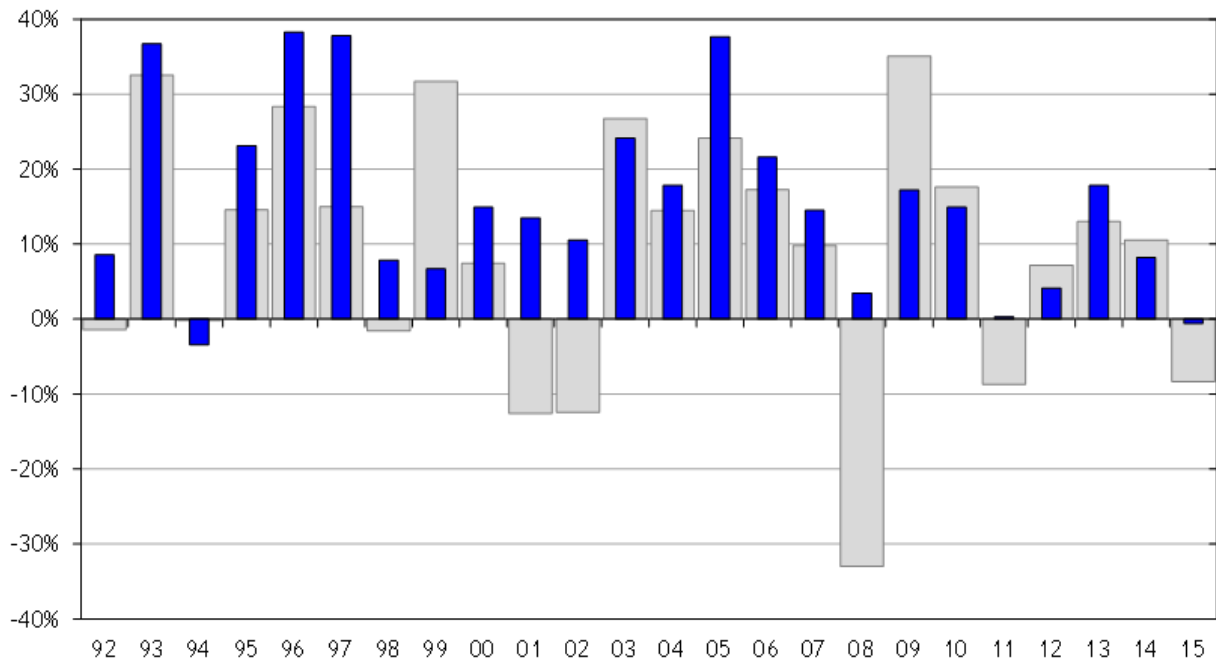


May 30<sup>th</sup>, 2016

## ***“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: 14,104

TSX 200 Day Moving Ave: 13,331

% Above/Below 200 Day Moving Ave: **5.76% Above**

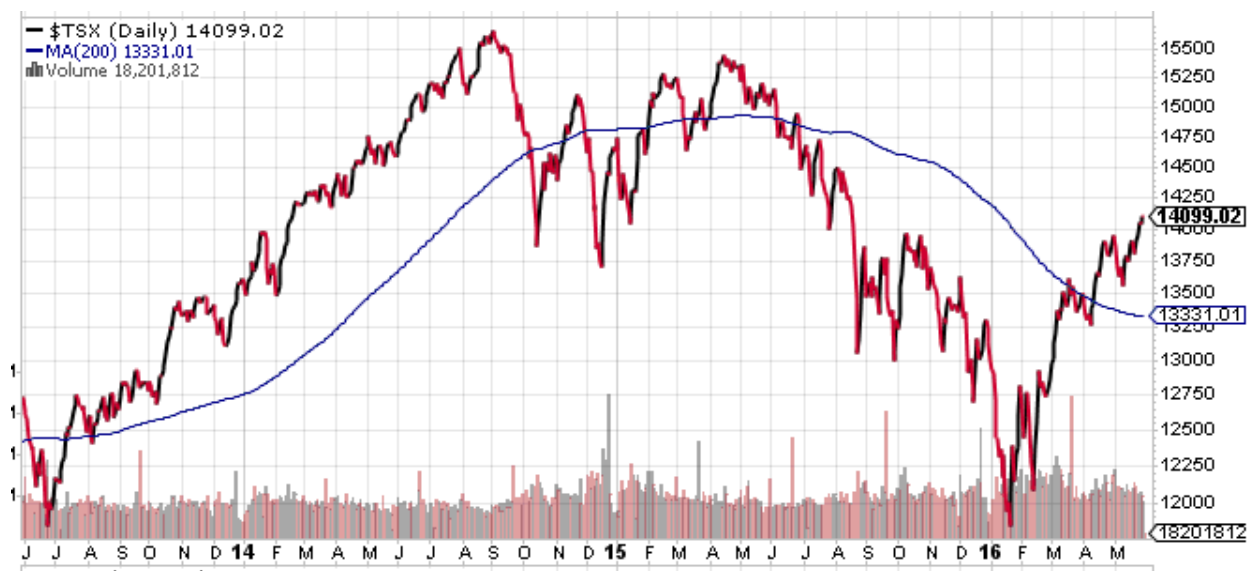
Levels for change: 100% stocks - **TSX 14,001** and 100% cash at – **TSX 12,701**

### Weekly Quote

“Seize the moment...and really enjoy your day”

## TEAM Updates and Gold

With a close on the TSX 60 above 14,001 at the end of the month, the Canadian TEAM model will move to 100% invested in the stock market.



The blue 200 day moving average line is also getting ready to turn back up.

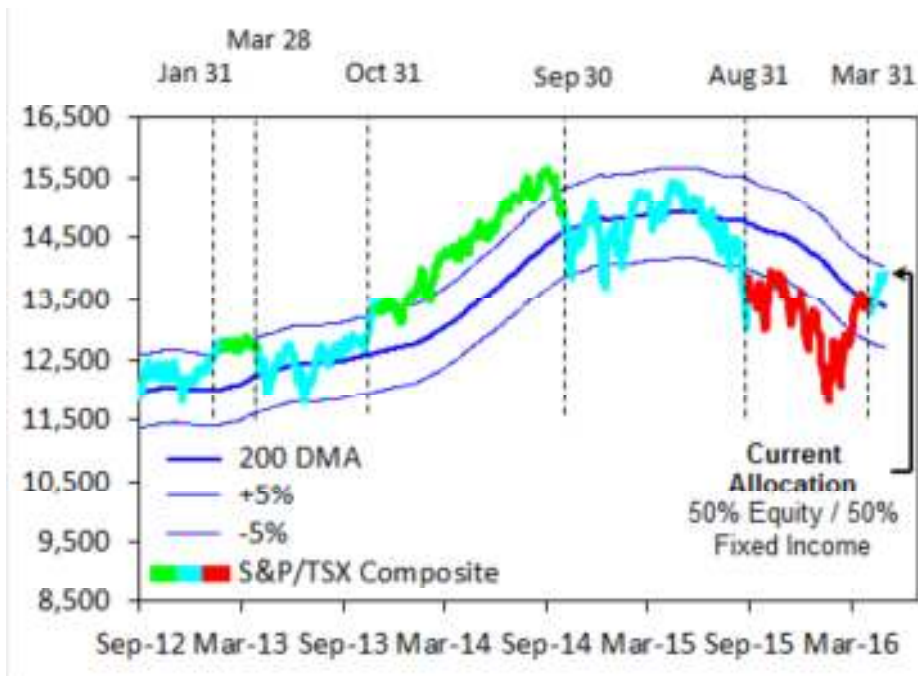
**Once the 200 day moving average line starts to trend higher, I would make the technical argument that the BEAR market for Canadian stocks that began in October of 2015 is over.** There would be no reason to consider any BEARISH outcomes until the TSX closed below the 200 day moving average again.

Fundamentally, the picture is drastically more mixed.

Oil and Gold stocks have recovered majestically. But earnings are quite unlikely to recover quite as buoyantly unless the underlying commodities keep rallying from here.

Looking forward...I think equity allocations in portfolios should be nearing there maximum exposures at these levels. (As you will see below...that is exactly what TEAM is telling us too!)

Let me take a wild stab and say the TSX can climb back into the mid to high 14,000s. If that were to happen I would expect a broader based rise for companies...meaning that more companies will participate in the higher pricing.



I thought this might be a good time to look and see where the TEAM model has made its asset allocation switches. Remember, the “red” is cash, the blue is 50% stocks and 50% fixed income and the green is 100% stocks. **What should be very clear is how the TEAM model focuses on preserving the wealth of the investor by not getting caught in long term declines.** If a given decline in the stock market bottoms and goes back up...TEAM repurchases the stocks it sold. Notice, most of the time, the repurchases are near where the downtrend sells get entered.

So we will see if TEAM goes 100% stocks next week and we get to add a “green” line to our chart above....

The Gold chart is another story all together.

Here we see some weakness that started when a number of the U.S. Federal Reserve members began running around talking about higher interest rates again...specifically a move higher in June.



We have heard this story so many times for the past eight years. I guess it never grows old.

Technically, for gold I notice two things.

1. Gold bullion needs to recapture the \$1250 US level to become a “buy” again.
2. Gold stocks have hardly budged from their highs. This is considered to be support for the notion that Gold should move higher again.

For those who have been holding Gold stocks and bullion.

1. If you feel like you have a lot of gold **stocks** in your portfolio and are getting a little nervous...lighten up now. You can always buy back again.
2. Gold bullion feels like a hold. This is not a serious enough decline to start selling into.

Feel free to call if you want to chat about Gold.

The end section of the editorial will help you understand HOW asset prices are being talked up on Wall Street. To be honest, I don't think stock prices (or real estate prices) have had much of a connection to the economy for a long time.

It is worth a quick read...

## A BULLS View Why the U.S. Fed May be Ready to (Finally) HIKE Interest Rates

by Brad McMillan

*Another Federal Reserve official, Philadelphia Fed president Patrick Harker, has weighed in on rates, projecting two to three hikes over the rest of 2016, including a June increase. Much of the commentary on his statement and those of other Fed members has focused on the potential effects on the stock market—specifically, the risk that higher rates may pull the market down.*

### **Will rate hikes sabotage the market?**

*This is a real risk and a real concern. Other things being equal, higher rates make the stream of earnings from a stock portfolio worth less in the present. Other things, however, are rarely equal. In this case, what matters is whether there are any positive big-picture effects that stand to offset the rate risk. As of today, there certainly are.*

**Let's keep one thing in mind: the reason for rate increases is that the economy is normalizing.** *Employment has grown strongly, wage growth has started to accelerate, and consumer spending has also picked up. Just this morning, new home sales shocked to the upside, increasing by 16.6 percent, well above even the highest level of expectations. New homes generate follow-on purchases of furniture, lawn mowers, and so forth. Consumption is clearly accelerating and will likely continue to do so, as it is well supported by incomes and saving.*

*This is particularly encouraging at this point in the cycle. Although companies have been increasing earnings, much of that increase has come from financial engineering, such as share buybacks, rather than organic growth in sales. It's unclear how much longer financial engineering can continue to grow earnings, making sales growth that much more important. Just in time, consumers look like they may be starting to spend again.*

*The real story behind a Fed rate increase isn't the damage that might be done. Though a legitimate concern, that's minor in the bigger picture. The real story is what the Fed's move would indicate about the economy as a whole.*

### **Big picture, the economy is doing well**

*Given the minutes of its last meeting, the [data since then](#), and the public comments by many Fed officials, the Fed clearly believes the economy is on track. Employment, one of its two mandates, is now at target levels, and inflation is well on the way. The Fed is now focused more on the risks of not acting than on the risks of acting.*

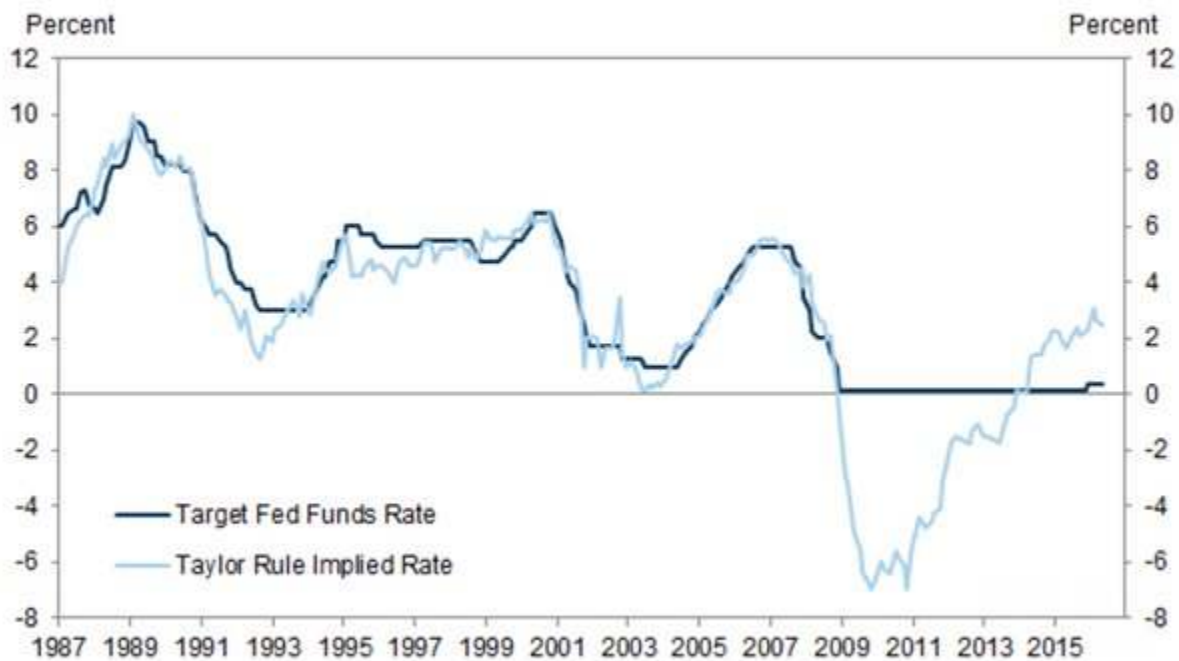
*This is a notable shift for a very scaredy-cat Fed. After the weakness of the past two quarters, the recent statements indicate **a real sea change in members' thinking—from expecting renewed disaster to expecting continued growth.** This endorsement really matters, since it has been so hard to get.*

*Just as worry has fed on itself for the past several years, there is now real potential for a positive cycle to begin. Rising rates hurt borrowers, true, but they help savers. With rates still low, the help is likely to exceed the hurt. Homebuyers, who need mortgages, now have an incentive to act before rates increase even more, which should help the housing industry continue to grow.*

*Historically, the first part of a rate-increase cycle is associated with faster growth and a rising stock market, for exactly these reasons. The Fed may be initiating that growth cycle for the first time since the financial crisis. And in the end, that's a good story.*

Nick Comment: Let's see if the Fed can follow through on what it has not been able to follow through on for 8 years. The graphic below says it's time.

### Traditional Policy Rules Call for Further Normalization of the Funds Rate



Source: Federal Reserve Board, Goldman Sachs Global Investment Research

**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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