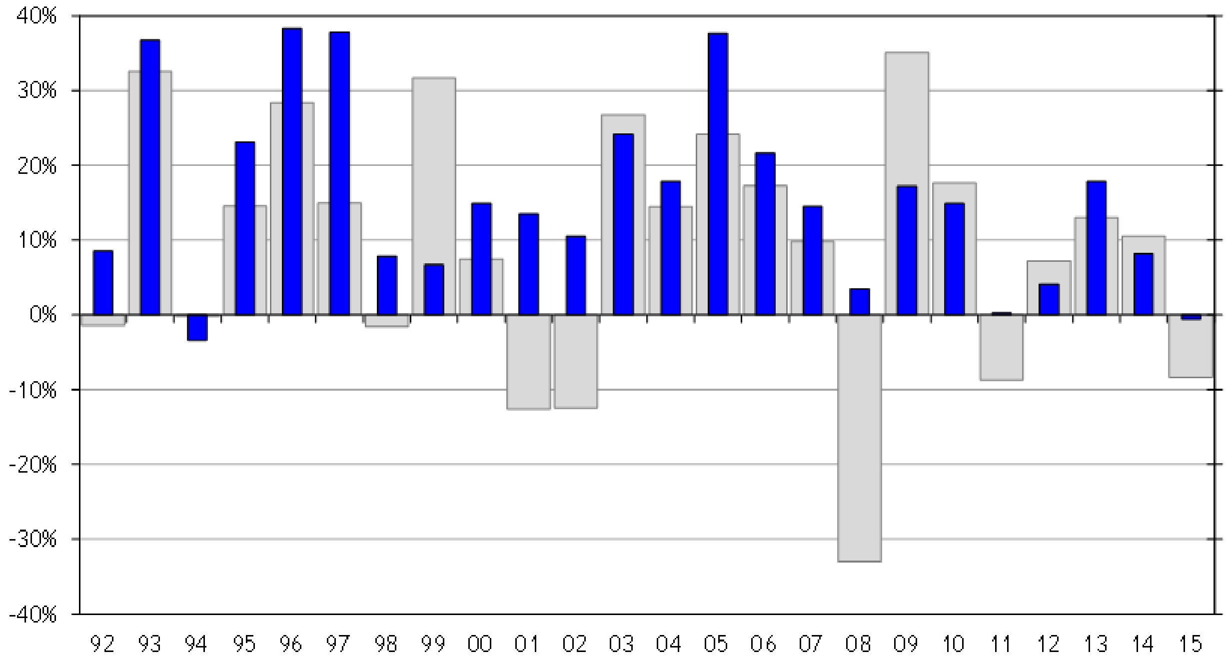
May 9th, 2016

"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: 13,702
TSX 200 Day Moving Ave: 13,360
% Above/Below 200 Day Moving Ave: **2.56% Above**
Levels for change: 100% stocks - **TSX 14,031** and 100% cash at – **TSX 12,731**

Weekly Quote

"The strange thing is that after arguably the biggest financial crisis in history nothing much has really changed in terms either of the fundamental structure of banking or the reliance on central banks to restore macroeconomic prosperity."

Mervyn King, Baron of Lothbury, former Governor of the Central Bank of England from his new book "The End of Alchemy"

TEAM Model Asset Allocations as of May 1st

Canadian TEAM Models:

TEAM – remains 50% equity/50% fixed income

TEAM II - remains 50% equity/50% fixed income

U.S. TEAM Models:

TEAM – remains 50% equity/50% fixed income

Large Cap Tactical – 100% equity

Broad Financial Markets Summary

After last week's rant I had a few people contact me with…are you BULLISH or BEARISH?

Technically, I can sum up my feelings in the bullet points below.

Answer: **TSX** – BULLISH with a stop loss at 13,250

S&P 500 – Neutral

Oil – Neutral/BULLISH, stop loss at close below $40 U.S.

Gold – BULLISH with a stop loss at $1225 U.S.

My fundamental feelings are significantly less BULLISH feeling. The financial markets have "no memory from day to day or week to week". Policy makers continue to "create policy on the fly" and manage market expectations in shorter and shorter time intervals.

Interest rate hikes are threatened…then removed. Markets gyrate in response. Kind of pathetic when you think about a world that needs long term planning desperately!

I felt it was important to answer the question of where I stand after last week's letter…and in light of what the remainder of this weekly talks about.

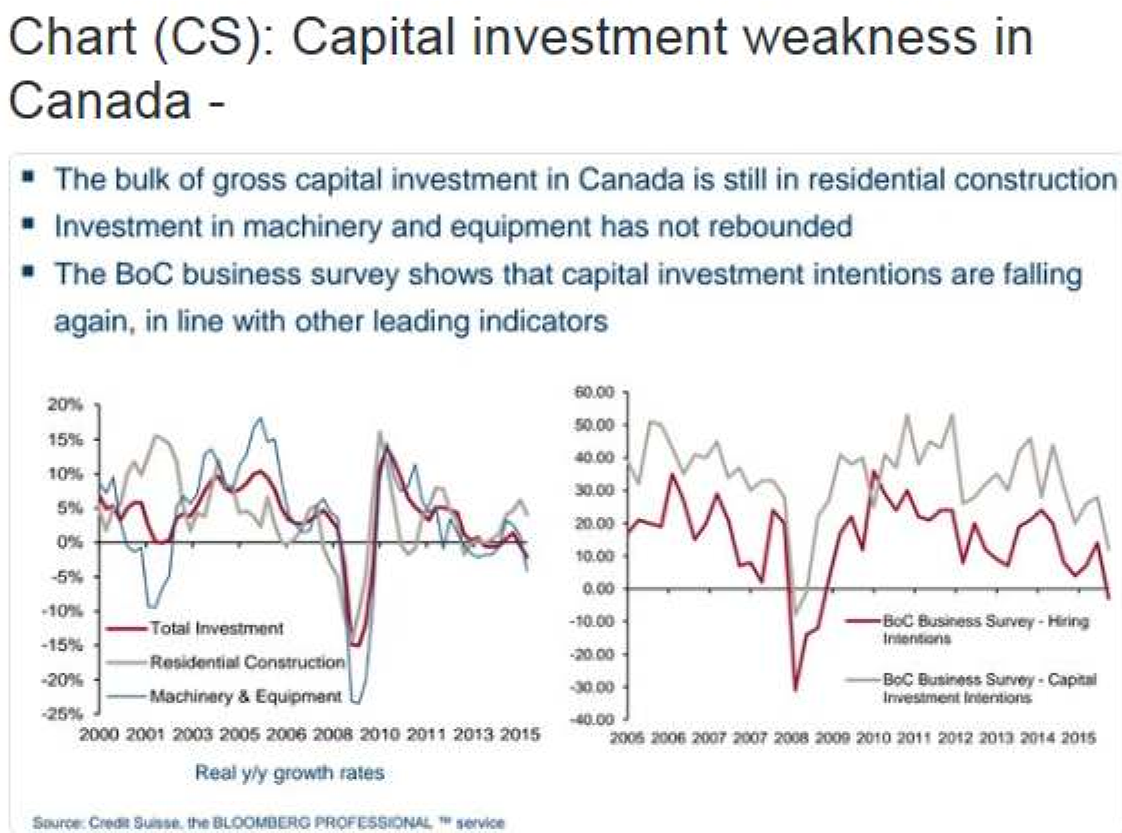
If you read between the lines feel free to sense my frustration at the big picture…but at the same time I am confident that the tactical tools I use are sufficient to work through the present financial situation with reasonable grace and elegance!

A final thought: S**tay disciplined in your approach. All over the media there are questions as to why anyone would bother to "hedge" their portfolios in a world where the "FED has your back". Don't drink the Kool-Aid.**

Where is Canada's Capital Investment?

No question…a couple of graphs are worth 1000 words.

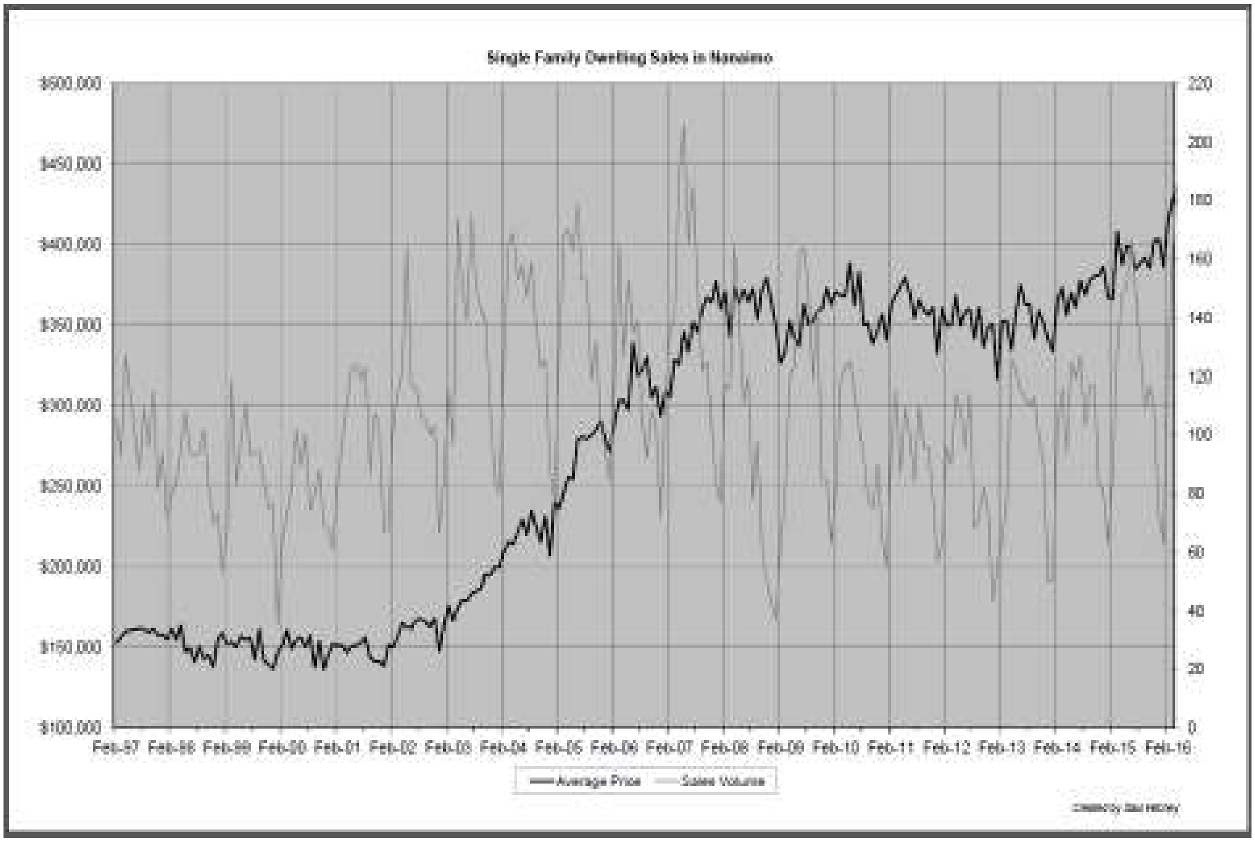
Capital investment continues to decline (rather sharply) even though Canada is in the midst of a real estate "bubble" that will come full circle once interest rates begin to rise.



Since there is no way to know when interest rates will start to rise, there is no point getting too worried about the "bubble". But I recommend investors use commons sense when making new purchases.

Take a look at the chart (courtesy of Saul Hilchey) below and the following thoughts as you observe the breakout trend for Nanaimo real estate prices:

1. The spill over affect from the Vancouver real estate "bubble" is taking hold in Nanaimo.
2. Sales volumes have moved back up to the levels we saw at the 2007 highs.
3. **Inventory is way down**. This is really important in the "bubble mentality" because people have to believe that the prices will keep going higher and the selling *down here* is stupid when prices will be much higher a year from now…
4. **Psychology has morphed to *get in at any price.***



Then numerical **average price data in the past three months is:** In February, Nanaimo's average price was $414,828. In March, $427,786. In April, $437,232. A year ago in April 2015 the average price was $380,434

So why do I show these two charts together?

Simple, Canada is experiencing capital over-investment in real estate and under-investment in everything else.

Why does that matter? Because, at the end of the day, you need a growing real economy to create a sustainable jobs market so the real estate market can support its higher valuations!

Remember, this is not a call saying the end is nigh for the real estate bubble. It could be over soon, or keep on going…I have no idea. **What I do know for certain is the valuations of homes are way out of line with the economic realities of our Canadian economy!**

Let me make one more point in how I see the Canadian housing market following in the footsteps of the 2008/2009 U.S. housing bubble.

As the housing "bubble" grew in the U.S. obviously prices were rising. In many areas of the U.S. the prices grew quickly. **But the price rise is only a symptom of the bubble…not the bubble itself!**

What you need to understand is the bubble actually comes when too many "over-extended purchasers" are in the market. These are people who have tried to catch the "bubble" and simply don't have the financial depth to ride out the eventual price decline.

Look at the chart below. It shows the trend lines for the number of U.S. renters vs. owners from before and after the 2008 housing bubble burst.

From 2002 to 2007 the housing bubble grew larger and larger in the U.S. Notice how the red "renter occupied housing" line declined and then flattened. Also, at the same time the "home ownership rate" peaked…

Of course, the bubble burst in 2008 and the lines rapidly changed trajectory.

Imagine how many people took every penny they had…and then borrowed all they could…and then borrowed some more…to buy houses in the U.S. during the bubble. When the bubble burst…they were done.

And here is a huge key to why the U.S. recovery has been so weak. **When rich people lose money on homes, (or investment real estate) the money goes to "money**

heaven" and the rich re-circle the wagons and invest again. When the middle class (or poorer) lose money on their homes…they have nothing left to invest in the "recovery" with. ALL THEIR MONEY WENT TO MONEY HEAVEN! (And lots of the banks money too!)

If you compound zero dollars at 10% for 20 years….you still have zero! Anyway, enough said…

Bottom line: Principle residences are just roofs, bedrooms and kitchens. The price is basically irrelevant. If you are going to continue living in the same area it matters little what the price of your home is. You have to live somewhere, it is going to cost you something to live.

If you are moving from Vancouver to Nanaimo…well, that is a different story. Values do matter in that situation.

Be wise and live within your means. Canada is doing its best to replicate the U.S. mess…don't end up being overextended and one of the casualties.

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.