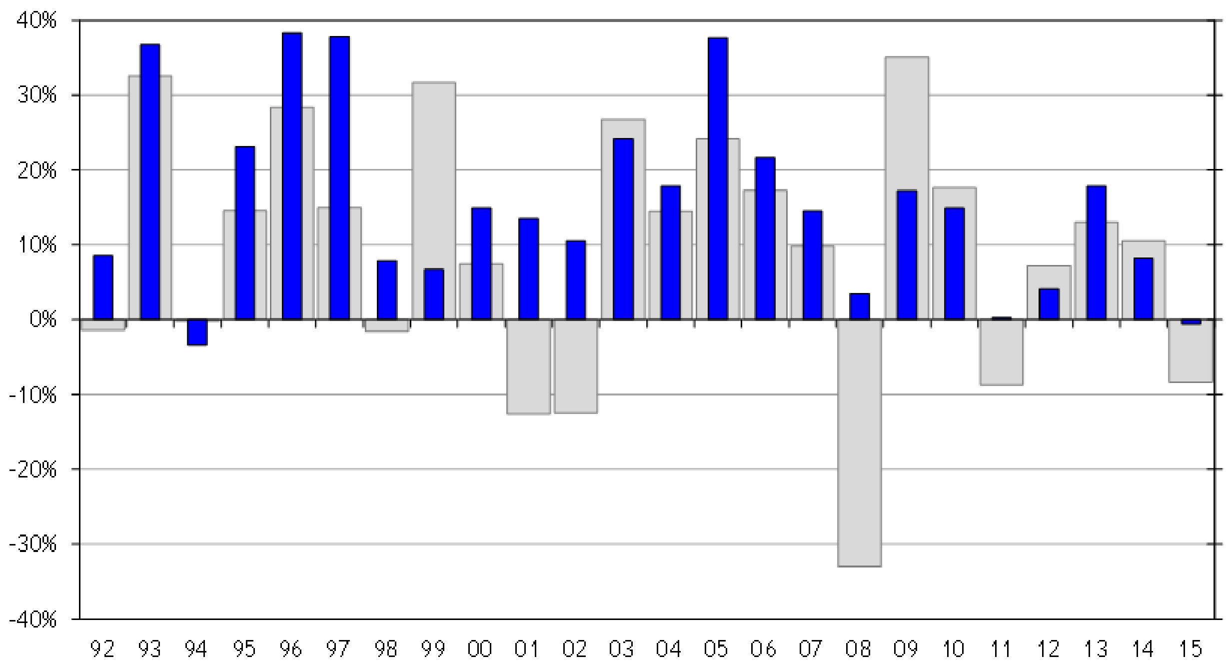
May 2nd, 2016

"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: 13,951
TSX 200 Day Moving Ave: 13,381
% Above/Below 200 Day Moving Ave: **4.26% Above**
Levels for change: 100% stocks - **TSX 14,051** and 100% cash at – **TSX 12,751**

Weekly Quote

"All morality is meaningless if people are given no choice of whether to behave or misbehave."

Jared Dillian, *The 10th Man report* – April 28th 2016

Notes from the Week Previous

Financial markets felt like they were ready to take a pause last week. A couple of noteworthy headlines for you to ponder:

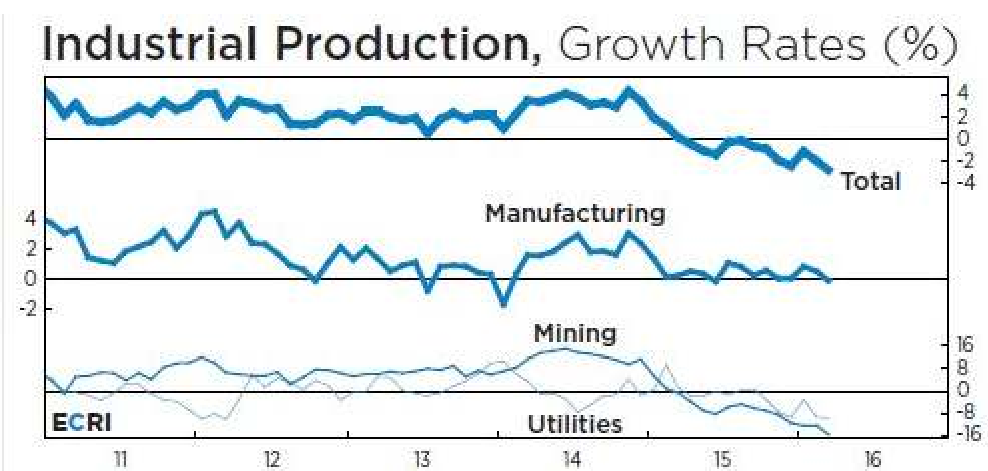
- U.S. earnings continue to come in on the light side. Earnings are now down 8.8% from the quarter earlier. It is not just energy companies either…tech has been weak too. GAAP earnings P/E ratios are getting rather high.
- The Canadian dollar touched on the $0.80 US level during the week.
- The Bank of Japan did nothing at its scheduled meeting and that was a BIG surprise. The Yen went higher when the "conventional trading position" was to be short the Yen going into the meeting.
- U.S. Gross Domestic Product (GDP) came in a 0.6%. Again, expected but pretty tough number for an economy targeting 3% growth.
- TEAM models in Canada stayed at 50% invested. U.S. TEAM models are still at 100% equity.
- Commodity prices and precious metals continued higher as the U.S. dollar continued to weaken. These moves felt a little bit "toppy" too. We will see…

…And now for my weekly comment!

It's Time to Change the Way Central Banks Are Manipulating Markets

It is time for a rant!

The financial inputs that have historically given investors and businesses the signals to make their investment decisions are broken. Slowing industrial production has NEVER been associated with a rising stock market (chart below). By over-supporting the global financial system, the Central Banks have only succeeded to create confusion for everyone else.



I follow the newsletters and blogs of a lot of great investors. Some are BULLS, some are BEARS, and most are adept at swinging between the two worldviews when the market conditions dictate.

…And these people are frustrated!

The way the Central Banks are handling the global financial picture is no different than the parent handling the spoiled child that is never allowed to experience the consequences of foolish behavior and, thereby, learn to not be foolish again!

There are so many charts and graphs showing that economic growth is not gaining enough momentum propel the world economies into a self-sustaining trend. Therefore, the financial markets remain hostage to the whims of central bankers and bureaucrats who have clearly lost their sense of direction…all they see is the banking system itself!

Should you care? Does it really matter?

I believe it does in that the long term quality of life is depreciated by current policy for two reasons:

1. Money is being devalued. When “risk free” money pays nothing it is basically worth nothing. And this forces people to take more risk than they should with their savings to achieve a rate of return.
2. Privacy is attacked. In pursuit of financial solutions to our global woes, citizens are being forced to give up their privacy.

Is there a solution? There are many…but none are likely to be chosen by the present day elites under the conditions on the ground today.

Danielle Dimartino-Booth wrote the following summary paragraph in her blog this week. She is referring to how the world can find a route back to health, self-sustaining financial markets:

Perhaps the current (financial) conundrum will present an opportunity when the next recession arrives, a chance to recognize the failure of the low interest rate era. As counterintuitive as it would seem, why not use the next period of economic weakness to set a permanently higher floor on interest rates. Will the weakest operators meet their makers at the corporate guillotine? Naturally that will be the case. But isn’t that the American way?

A new generation of revolutionary central bankers must be called to arms for all of our sake. Their battle cry: We commit to never returning rates to zero or below again, to never let be money be free and forever ensure there is a true cost associated with borrowing. Release the markets to set interest rates now and forever!

Will it work? Stranger things have been known to succeed in capitalistic economies with competitive and freely functioning markets.

An interesting thought…and who knows…maybe it would work? But I still think she is wishful thinking to expect a new set of central bankers, not only to arrive on the scene, but to have a different set of solutions from the status quo "*band of bankers*".

The next story is just another example of what havoc financial policy has wreaked…

Financial Insanity – Houses Were Meant to be Homes

There have been so many stories; both told and untold, about how the way artificially low interest rates have mutated many real estate markets into things they never were meant to be.

The following story represents an angle that goes unheard far too often!

My son became an innocent casualty of Toronto's cruel real estate war this spring.

It was a battle he was loath to join in the first place. Six going on 16, Will is like an old cat with a favourite sunny spot; he hates change. Last fall, when I was hired as The Globe and Mail's Toronto Editor, he stormed away from our celebratory dinner after learning it meant we'd be leaving the suburbs.

"I don't want to move," he exploded, shifting from anger to sadness in a cycle that's yet to stop.

Our search has swung wildly, in housing type and location. We've been from Yonge and Eglinton to Scarborough and back down the GO line to Port Credit. Will has been unwavering in his opposition, not even swayed by an in-ground pool.

As we've toiled with indecision and fretted over the lack of inventory, the market has surged. Our $1-million budget seems less adequate by the day and we're forced to make potentially life-changing decisions in an afternoon. The pressure of two commuting parents is also taking its toll. Weeknight family dinners, karate classes and walks to the park have been abandoned. We need to move and soon.

It was in that mindset, panicked and frightened off of Toronto's wild market, that we stumbled across a house on the border of Mississauga and Oakville. Right off the highway and five minutes to the Clarkson GO station, the house would make daycare pickups possible again. It was fully renovated, beside a great school and backed onto a park. It was the quintessential suburban dream, and we wanted it.

Remarkably, Will did too.

“This is it,” he declared at first sight. “Let’s buy it.”

He was miffed when we explained the owners were holding off on offers for nearly a week and that we would be in tough competition. That night, he brought his father a $5 bill to ensure we had the strongest offer possible.

On bidding night, I met our real estate agent, Ted, at a nearby Wendy’s. Over burgers and fries, we settled on an opening offer of $970,000 ($80,000 over asking), knowing there were at least five other bids coming. Before we had finished our meals, there were five more. Each time his phone buzzed, I added $10,000 to our offer. We settled on $1,026,505 and I headed home for bedtime as Ted went to battle for us.

As though it was Christmas Eve, Will was giddy with excitement and unable to sleep. When my cellphone rang close to 9 p.m., he listened intently. The buyers were inviting three of us to come back with our best offers.

Will’s eyes flew back and forth as his father and I debated how high we were willing to go. Agreeing not to get carried away, we sent Ted back in at $1,030,000 with no conditions.

My cellphone rang less than two minutes later. We had been dismissed from bidding. As I hung up, I saw a light flick on in Will’s room. Inside, he was crying over his piggy bank, frantically counting out quarters.

“Here mommy, take this,” he sobbed, pushing $3.25 across his dresser. “Call back and tell them we have more.”

My heart broke and swelled in the same moment. It physically ached when Ted texted to reveal we’d missed the target by $30,000.

Three weeks later, we’ve not seen another house, too battered from our loss to risk another so soon. At breakfast the other day, Will’s easygoing younger brother, Noah, who has loved every single house we’ve seen, asked if we are still moving. “I hope so,” I said with a deep sigh. After a moment of silence, I asked Will if he was still sad.

“It’s time to move on, mom,” he offered philosophically. “There will be other houses.”

And so the war continues.

Nick Comment: It never had to come to this…End the Fed!

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.