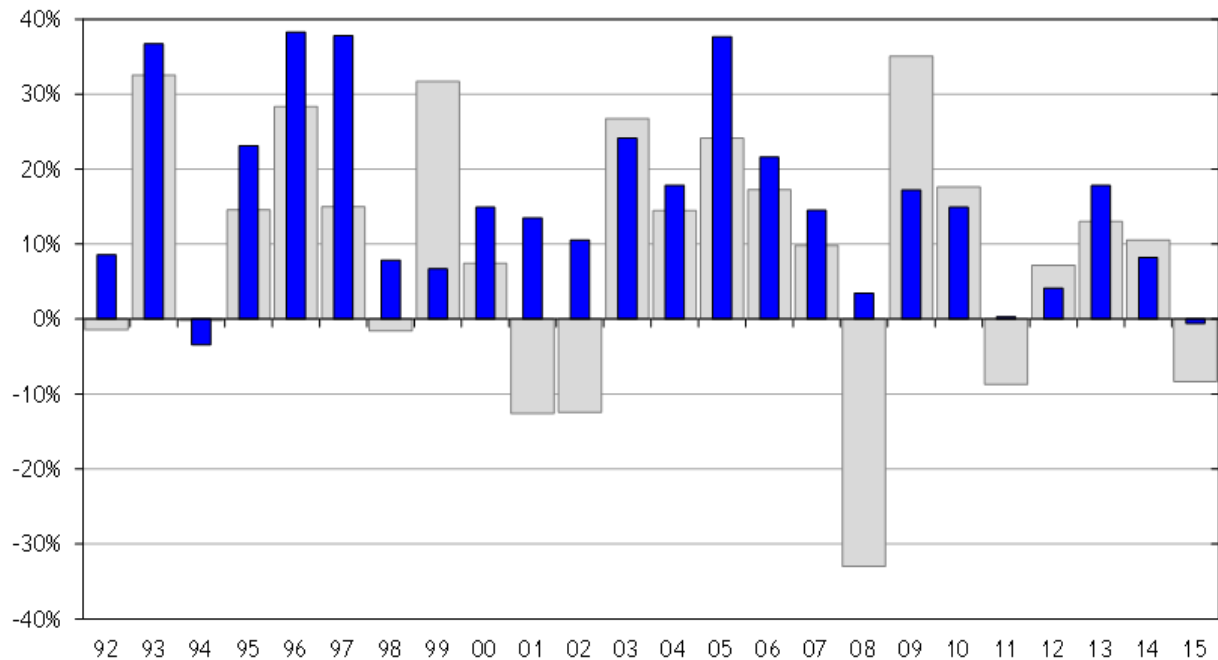


April 25<sup>th</sup>, 2016

## ***“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: 13,873

TSX 200 Day Moving Ave: 13,396

% Above/Below 200 Day Moving Ave: **3.56% Above**

Levels for change: 100% stocks - **TSX 14,065** and 100% cash at – **TSX 12,726**

### **Weekly Quote**

*“Life is just a party and parties weren’t meant to last”*

Prince, from the song “1999” - RIP

### Prince Memory...

It was 1982 and I lived in Provo, Utah attending Brigham Young University...a group of friends and I were going to a party at Bridal Veil Falls where you could take a gondola up to a viewpoint and that venue was being used to host a dance event. It was an incredible view site and a really cool place to host an event!

While there, I remember hearing Prince's 1999 song used in the quote of the week at the party and thinking to myself as I looked out over Prove Canyon as dusk settled in...*Wow, 1999 is so far away! I will be 37 years old then and my life will be totally different! But it is a really long time from now!*

How time flies! Prince - RIP

### Short General Comment – Potential Debt forgiveness Initiative

Earnings season has been weaker than expected in the U.S. but stocks continue to go higher. **There is a rumour that a massive debt forgiveness program between central banks and their treasuries is coming soon.** (Numbers I have seen on Twitter range in the \$15 trillion to \$20 trillion range.)

Clearly, this would be a huge “next level” move by the central banks if the rumours are true.

It also sets markets up for disappointment if nothing happens.

I have no idea if there is any serious foundation to the rumours...I just didn't want you to be the last to know!

### Don't Get Frustrated...A Message to Myself!

Sometimes it is easy to get caught up in the details and forget to focus on the big picture. For me during the past year...this has been one of those times.

I am unapologetic about the fact that my training and investment world-view is “classical-traditional”. Excuse me if I think earnings should be improving for a company's stock to go higher in the long term...and I mean GAAP earnings<sup>1</sup> rather than “adjusted”, as in “*add in or delete whatever the hell I like*” earnings! I also believe that markets should set prices, not bureaucratic committees.

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<sup>1</sup> GAAP = Generally Accepted Account Principles which have been the accounting standard “forever”!

But frustration is not a correct response to situations that one cannot influence or change. It is completely counterproductive.

At the end of the day, I have no reason to be frustrated. The TEAM process does not even require me to care about all those misleading details...what I have to focus on is staying disciplined! **If I stick to my discipline, TEAM will capture approximately 80% of an uptrend that lasts more than six months and only 20% of a downside trend that has a similar duration.**

The editorial below written by Josh Brown (The Reformed Broker site) states this case rather nicely:

*Anger About All Time Highs for Dow Industrials*

*"The anger about the new all-time high the S&P 500 is currently approaching is palpable. Take my word for it, I read everything and everyone.*

*The 14.5% rally off the February lows, on nothing but worsening earnings and cuts to GDP forecasts has people utterly furious. I'm trying to remember a time in which stocks were on the verge of a breakout and people were so angry about it. The Dow just broke above 18,000 for the first time in nearly a year, and no one wants to even smile.*

*I think a lot of this stems from the seeming disconnect between a sluggish economy and record high stocks. Another component of it is the anxiousness that people feel so soon after it looked like a full-blown bear market could be upon us. There was recession talk in the air as recently as last month as well. People who did something to protect themselves – selling, shorting, hedging, etc – are absolutely furious. And it's entirely understandable.*

*One of the things I am thankful for personally is that I stopped playing the guessing game professionally about where markets were headed roughly six years ago. The game was endlessly frustrating and I was never any good at it anyway. Running money based on evidence and rules, as we do today, has made a huge difference in my life. I can't imagine ever going back to the way things were for me from 2000-2010.*

*When I think of all the time and energy I used to spend trying to guess at the unknowable, I shudder. When I see people still doing the same thing – making emotional calls about buying and selling based on the last thing they read or the feeling they woke up with, it's amazing to me – even though I played the same game myself for so long. How can they seriously be doing this? With real money?*

*Anger at new highs or because of a correction or bear market is symptomatic of process-free investing. I know this from experience, and I'm thankful for this experience even though it felt terrible at the time. It taught me what not to do.*

*Rules-based investing isn't a silver bullet, nor will it ever remove the discomfort that every market participant is forced to feel from time to time. **But having a rhyme and reason, laid out in advance, for the decisions you will and will not make, is utterly priceless in comparison to the alternative.** An alternative you couldn't pay me to regress back to.*

*Life is too short to be spent placing seat-of-the-pants bets in a casino where the rules change every week. Don't get mad, get disciplined."*

TEAM is a great discipline...it is one of many! So message to myself: Focus on the process, the planning, and the big picture. Stay disciplined!

### Preferred Share Update

Periodically, for the past several months, I have been featuring **rate/reset preferred shares** in the weekly comment. As the world continues to starve for "safe yield" I continue to be drawn back to the analysis of this hated asset class.

It makes sense that investors are leery. The price performance of rate/reset preferred shares has been abysmal.

But the more work I continue to do with the preferred shares and with the global outlook for interest rates; it seems the preferred shares deserve a second chance!

The chart below is making an interesting comparison.

The data was collected and tabled by RBC Dominion Securities and it is noticing the same thing that I have been noticing in my own work: **The multitudes of discounted rate/reset preferred shares are under appreciated by the market place!**

Bloomberg Ticker	Current Price	Reset Date	Reset Spread (bps)	Yield Until Reset Date	Yield at Current 5Y GoC Rate (0.78%)	Yield at 0% 5Y GoC Rate	Yield Based on 1.5% 5Y GoC Rate	Assumed 5Y Yield on Extension	Price Based on Cash Yield Assumption	Assumed New Issue Level	Implied Capital Gain
TRP J PFD	\$ 25.55	31-May-21	469	5.38%	5.35%	4.59%	5.81%	1.25%	\$ 25.00	5.25%	-2.15%
TRP C PFD	\$ 11.50	30-Jan-21	154	4.92%	5.04%	3.35%	6.07%	1.25%	\$ 13.29	5.25%	15.53%
Blended Average	\$ 18.53	31-Mar-21	312	5.15%	5.20%	3.97%	5.94%	1.25%	\$ 19.14	5.25%	6.69%
TRP E PFD	\$ 17.95	30-Oct-19	235	5.92%	4.36%	3.27%	5.01%	1.25%	\$ 17.14	5.25%	-4.50%
Differential	\$ 0.57	1.4 years	77	-0.77%	0.84%	0.70%	0.92%	0.00%	\$ 2.00	0.00%	11.18%

Source: Bloomberg, RBC DS

Let me help you understand what the assumptions are in this table. The comparison is of a new issue of a Transcanada Pipelines preferred share that was issued last week and one that was issued a while ago. The latest new issue (TRP.J) pays a current 5.38% yield until reset in May, 2021 where the older share (TRP.C) pays a yield of 4.92% until January, 2021. Not a large difference in yield...

But look at the blue boxes under conditions where interest rates on 5 year Government of Canada bonds even rise just slightly from 0.78% at present to 1.5% in 2021. **Not only does the rate of return rise to 6.07% vs. 5.81% but there is an implied capital gain of 15.53%.** Shown in the final blue box on the chart.

In a nutshell, the under-appreciated rate/reset preferred shares represent a “call option” on higher interest rates. This means they are one of the few investments that stand to benefit if/when interest rates begin to rise.

The RBC Dominion Securities research editorial recommended a blended portfolio these rate/reset preferred shares. Some with lower resets...some with higher.

If you have questions about rate/reset preferred shares please contact me and we can discuss them.

### *The Rally You Never Sell*

*For “gold-bug” investors the holy grail of their doctrine goes like this: At some point the global financial system gets itself so screwed up that investors lose confidence in the entire process...people flock to gold/silver investments and drive the price up exponentially (while all other investments fall in price)...interest rates rise dramatically...and at some point a country (usually thought to be China) capitulates and creates a “gold-backed” currency that restores sound paper money again. Gold-bugs then convert their gold to the new gold-based currency and live happily ever after.*

I write the above with a mild amount of sarcasm because the amount of “pain” the world would go through while this narrative was playing itself out is completely impossible to predict...but would be large enough that life would not be the same for ANYBODY if happened! (No matter how much gold they owned!)

Now let's be fair...anything can happen. And the way markets are being manipulated I take nothing for granted.

**So rather than view the budding rally in gold and silver as the “rally that you never sell” I believe it makes more sense to focus on the type of discipline spoken of in the “Don't Get Frustrated” section of the weekly comment when viewing precious metals.**

Life is really stirring in all commodity markets. There are lots of rumours...”China is back stock piling...countries are considering a onetime \$17 trillion debt forgiveness between the treasuries and the central banks...inflation is on the rise...deflation is just around the corner”.

Who cares? The price action is simply saying pay attention.

Silver has already broken out to the upside. Gold is only about \$80 away from a breakout.

Stick with your stop-losses and invest accordingly...

***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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