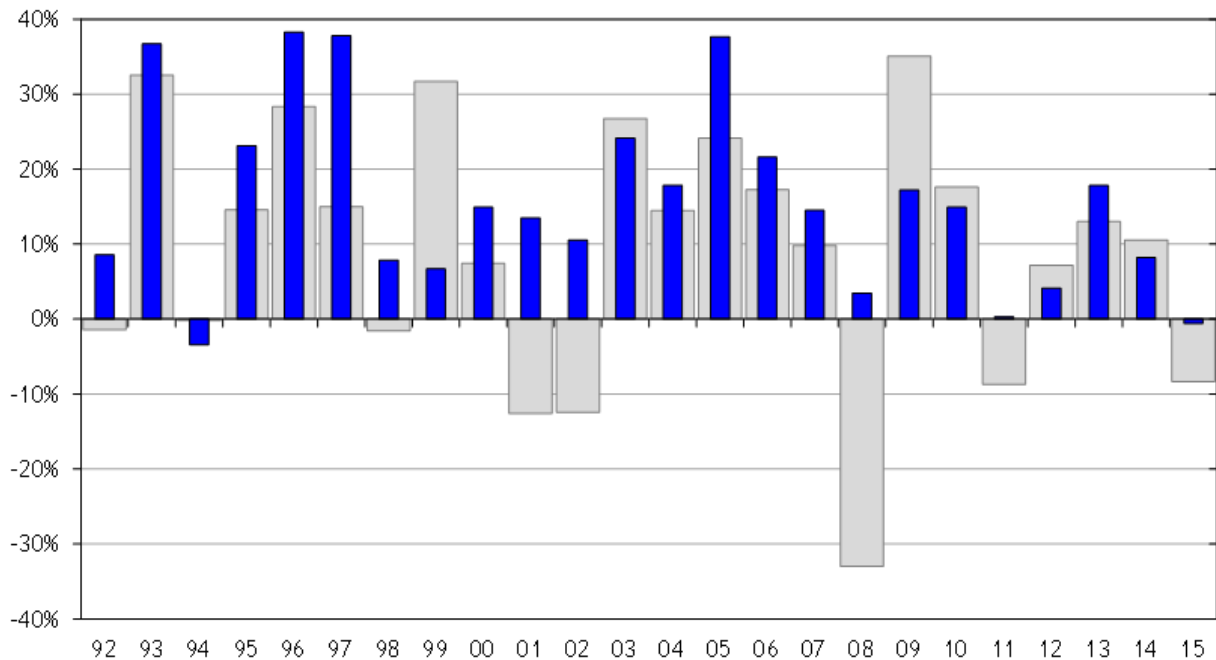


April 18th, 2016

“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: 13,637

TSX 200 Day Moving Ave: 13,419

% Above/Below 200 Day Moving Ave: **1.62% Above**

Levels for change: 100% stocks - **TSX 14,090** and 100% cash at – **TSX 12,748**

Weekly Quote

“Perhaps it is because politicians care more about securing their private club than securing their country.” - Donald Trump, speaking about U.S. Primary election process

A Week to Think About What We Feel

I must admit, my level of reflection about markets has risen dramatically the past few weeks.

Little did I know when embarking on a blitzkrieg set of client meetings focussing on **long term market possibilities and how they might impact us individually** would elicit such a consistant set of answers and feelings.

In a nutshell, investors are experiencing a strange mix of “**passiveness and fear**”.

Since the financial crisis in 2008/2009, the old rules for making solid, long term investment choices have lost their relavence. Asset prices have held up better than the economic conditions warrant...and EVERYBODY knows it has been the impact of the global central banks that has been the “backstop” for keeping historically high asset prices. Therefore, the “passiveness” comes from the belief central bank control will continue to be the case...the “fear” comes from the thought...“**what if it stops?**”

Human nature cannot stay on “high alert” forever. Our “*fight or flight*” response diminishes the longer we sense danger, but the danger never happens.

It has been 8 years since the financial crisis took root. Lots of bad stuff has happened in the world but the central banks have been able to hold it together EVERY time. It is not healthy to keep worrying about the future...so we stop.

With interest rates outrageously low, investors continue to eliminate low paying safer investments from their portfolios and add to their riskier higher yielding investments.

And the beat goes on....

Ironically, it was only 60 days ago that the world feared a “deflationary spiral where oil was heading to less than \$20 per barrel and global central banks were paralyzed with no ability to act any further. Today, we hear continous stories of how the Fed is too late raising interest rates and inflation is “getting away on them.” ...Sixty days.

With that tought I turn the rest of the weekly comment over to one of the brightest minds in finance these days. Danielle DiMartino Booth has sat in the same room with the most powerful Central Bankers in the world. Why? Because she was one of them!

I have included her last blog entry in its entirety below. It is not too long. Take your time when you read it and think about how you feel about what she is saying!

Guest Editorial: Has the Fed Bankrupted the Nation?

Volcker, Greenspan, Bernanke and Yellen. Which one does not belong? Logic dictates that Volcker should have been odd man out. After all, there is no legendary “Volcker Put.”

The towering monetarist made no bones about never being bound by the financial markets. The same can certainly not be said of his three successors. And yet, history contrarily suggests it is to Volcker above all others that the financial markets will forever be beholden.

Many of you will be familiar with Michael Lewis’ memoir, **Liar’s Poker**. Yours truly first read the book in a Wall Street training program much like the one Lewis survived to describe in his autobiographical work. (Nick comment...me too! In 1987) The take-away then, in late 1996, was that **Gordon Gekko** was right — greed was good.

Recently, a second reading of Liar’s Poker, following nearly a decade inside the Federal Reserve, delivered a much different message than did that first youthful reading and was nothing short of an epiphany: **Paul Volcker**, albeit certainly inadvertently, created the bond market.

On Saturday, October 6, 1979. Volcker held a press conference and announced that interest rates would no longer be fixed and that further the Fed would begin to target the money supply in order to curb inflation and “speculative excesses in financial, foreign exchange and commodity markets.”

Alas, this new regime was not meant to be. In trying to introduce an alternative to interest rate targeting, the Fed replaced one guessing game with another. Predicting the demand for reserves and then buying or selling securities based on that demand proved to be just as dicey as a similar exercise to target a given level of interest rates had been.

Volcker’s experiment ended in 1982. But by then, the genie had escaped the proverbial bottle.

Michael Lewis explains: “Had Volcker never pushed through his radical change in policy, the world would be many bond traders and one memoir the poorer. For in practice, the shift in the focus of monetary policy meant that interest rates would swing wildly. Bond prices move inversely, lockstep, to rates of interest. Allowing interest rates to swing wildly meant allowing bond prices to swing wildly.

Before Volcker’s speech, bonds had been conservative investments, into which investors put their savings when they didn’t fancy a gamble in the stock market. After Volcker’s speech, bonds became objects of speculation, a means of creating wealth rather than merely storing it. Overnight the bond market was transformed from a backwater into a casino.”

What a casino. As Lewis points out in his book: In 1977, the total indebtedness of U.S. government, corporate and household borrowers was \$323 billion. By 1985, that figure had grown to \$7 trillion.

Volcker left the Fed in August of 1987 after handing the reins over to Alan Greenspan. Two short months later, there **would** be a celebrated birth, that of the Greenspan Put, a watershed that truly got the party started. At last check, that party's still going strong though stress fractures have begun to show on the festive facade. Of course, you wouldn't have noticed them with the celebration of credit continuing to party on.

By year's end 2015, U.S. indebtedness had swelled to \$45.2 trillion. Tack on financials, which few do, and it's \$64.5 trillion and unabashedly growing. We are a nation transformed.

There are many temptations that tantalize when it comes to delving into debt. Uncle Sam now owes a cool trillion more than the nation produces. In our history, only once before has the divide between debt and production been so wide. That time was right after World War II. The difference between now and then — the cost was great but the purchase of our freedom was priceless.

What has today's vast store of debt purchased? Certainly not freedom.

American nonfinancial businesses are today in hock as never before, to the tune of \$14 trillion. Sadly, most of their debt accrued since the crisis has been funneled into nonproductive endeavors that involve balance sheet tiddlywinks to pad earnings. Don't believe a single economist who dares quantify the consequences of a foregone generation of capital expenditures.

(At the risk of digressing, there was a bittersweet irony to Greenspan's lamenting a lack of productivity growth when record share buybacks occurred on his watch. Consider his tenure to have provided the training ground for today's C-suite occupants.)

At the most fundamental level, it's the household sector that has undergone the most tragic transformation. We of that sector are, after all, what this country is and what it will be tomorrow. And it was individual citizens who had the good sense and vision to found a democracy built on the tenet of government's role being protector of our inalienable rights to life, liberty and property. We earned these rights through relentless hard work and proudly claimed them as our own. It was the American way.

But what happens when the incentive system that encourages the honest attainment of that very American Dream breaks down? What happens when people in positions of power add the forbidden fruit of debt to our nation's recommended daily allowance of consumables cloaked as a bonafide food group?

Whether it's margin debt, mortgages or car loans, Americans have been brainwashed into believing that living beyond their means will somehow get them ahead. Consider the data, which simply do not lie.

In 1984, disposable income, what we take home in the aggregate after we pay our taxes, was \$2.9 trillion. That same year, total household debt was \$1.9 trillion. Back then, we covered our debts and had a fair bit left over with which to fund savings and possibly pay for a trip to Disney or for our kids' college educations.

Then along came 'measured.' The first era of 'lower for longer' interest rates arrived in the aftermath of the dotcom implosion. Baby boomers, while still years away from retirement, had nevertheless been shocked to see their retirement savings take such a huge hit. But rather than batten down the hatches, they whipped out their credit cards marking a turning point in our nation's history.

The Gregorian calendar dictates that the first year of this young century was 2001. That also happens to be the first year Americans spent more than they cleared in disposable income by way of accumulating debt: they took in \$7.74 trillion and racked up debts that totaled \$7.82 trillion by year's end.

Feeding the shift from those who once had rainy day funds to those who had been had were six words constituting a commitment from Alan Greenspan stating that interest rates would rise at a, "pace that is likely to be measured." Stand and deliver the famous obfuscator among orators did. The good times lasted for so long that households began to get unsolicited offers for new credit cards and mortgages in the mail...for their children.

Was the Maestro warned of the disaster building? The answer to that is well documented in the terrible tale of Edward Gramlich, who pled with his boss to put a stop to the subprime madness before it claimed countless victims, the largest of which would be the entire U.S. economy.

And yet the borrowing binge continued, even in the darkest days of the foreclosure crisis as mortgage balances collapsed. Of course, by then, Greenspan had exited stage left, off to sign book covers and leave the cleaning up of the disastrous detritus to his successor.

What was the harsh medicine Ben Bernanke prescribed to wean the country off over-indebtedness? Why gasoline. Bernanke poured fuel on the fire in the form of seven years of zero interest rates making debt more accessible than it had been in 5,000 years of recordkeeping (as per Merrill Lynch's math).

The result was that households never saw even one year in which they made more than they owed. Not one, even though the period of 'beautiful deleveraging' was supposedly underway.

From this and that dotcom IPO, bought on margin, no less...to liar mortgages...to super subprime car loans, the elixir of aspiration has simply been too strong to resist. Lost along the way is a culture that once valued waiting for the better things in life. In the wake of this wholesale surrender of a culture, households have slowly succumbed to a subpar existence. That's the trouble with living beyond your means. It never lasts indefinitely and always leaves you worse off than had you refrained from the get go.

The latest household data for 2015: Disposable income, \$13.4 trillion. Debt, \$14.2 trillion.

The prognosis? Mortgage debt is rising, credit card usage is back in vogue and student debt continues to spiral upwards. Car lending meanwhile, may be taking its last gasp for this cycle as fresh reports show used car prices have fallen for four straight months, a classic precursor to a downturn in the auto sector.

As for the fair chair, Janet Yellen, by all accounts she is running scared, pulling out all stops to forestall a recession in the hopes that there is such a thing as The Great Moderation, Part II.

To say Yellen is just now waking to the dangers of over indebtedness would be disingenuous. She was President of the San Francisco Fed when the housing bubble literally inflated and burst in her backyard.

No, perhaps what she is now realizing is the deep trap she is in. Her cabal of economists have long since assured her that government, corporate and household debt **service** is so low that history itself has been rewritten. But therein lies the mother of all Catch 22s, wrought by nearly 30 years of central bankers encouraging, enticing and imploring debt-financed spending while punishing, penalizing and all but outlawing saving.

Yes, the debt service is at record lows, but the mountain of debt that's been accumulated dictates that the only thing the economy can withstand is low rates in perpetuity. The alternative is simply unimaginable. There would be widespread ruin and perhaps even the bankrupting of a great nation.

If only we didn't know how we got to this point. But we do. We were duped by Liar's Brokers and now have to live with the consequences. To quote Michael Lewis one last time, "In the land of the blind, the one-eyed man is king."

****If you would like to read more by Danielle DiMartino Booth please check out the link below.*

<http://dimartinobooth.com/fed-bankrupted-nation/>

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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