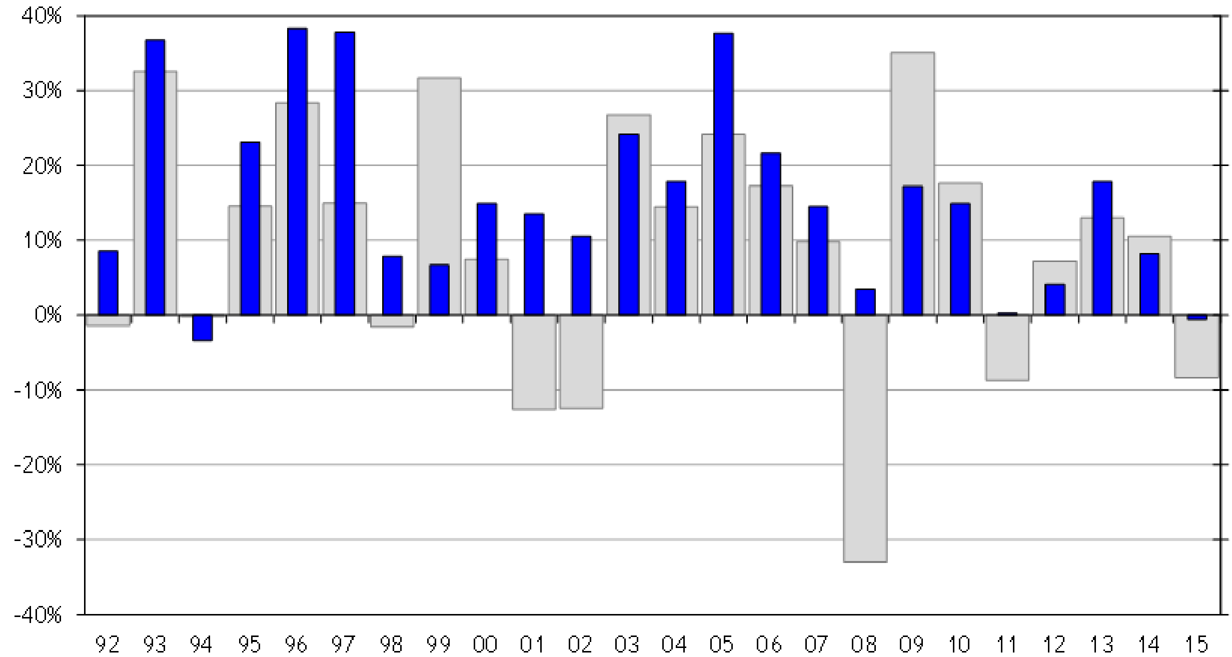
April 4th, 2016

"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: 13,450
TSX 200 Day Moving Ave: 13,478
% Above/Below 200 Day Moving Ave: **0.17% Below**
Levels for change: 100% stocks - **TSX 14,251** and 50/50 at – **TSX 12,801**

Weekly Quote

"I don't ask for much…the truth'll do just fine
Won't you..lay it on the line!"

Song: Lay it on the line Band" Triumph

Another Busy Week Meeting with Clients

Thank you again for taking the time to meet with me in the past 3 weeks. As of Friday, I have seen or spoken to 48 client households. There are a number of consistent themes that are coming forward.

I have received a version of the following questions a few times in the client meetings:
There is always a BULL market in something…why don't we try to identify those BULL markets and profit from them?

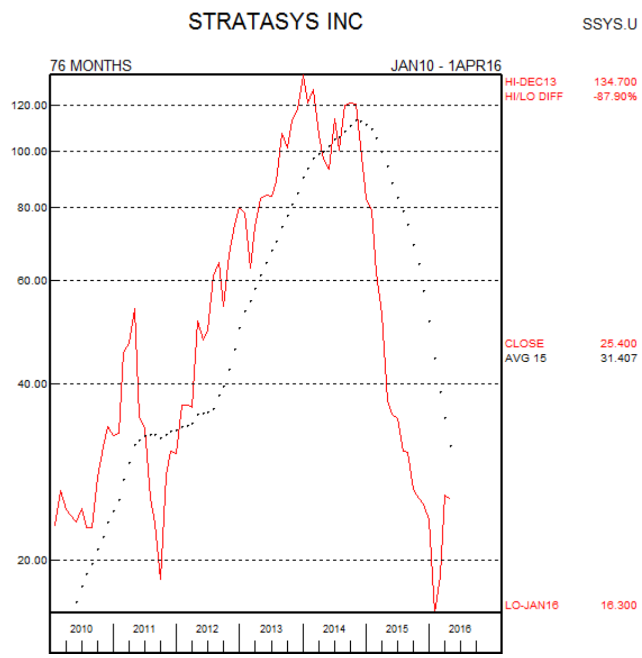
The answer to that question is really a "risk based" answer. So let's dissect this idea and see what we come up with.

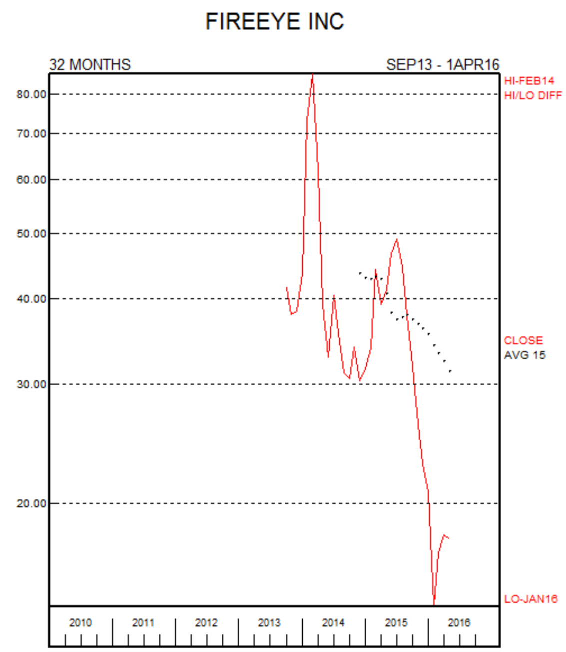
First, a bit of a definition so we can rule out some shorter term situations:

1. A BULL market trend must last longer than 6 months.
2. The BULL market trend must start from an identifiable "bottom".
3. The BULL market trend, once invested in, must have an identifiable exit.

Another challenge in "hunting BULLS" is to make sure the asset class is within "risk tolerances" of the client portfolio. For example, does a BULL market in Internet Security companies or 3-D Printing companies really line up with a client's risk tolerance to losses?

The following two charts are examples of BULL markets of high risk companies that failed spectacularly.





During their rise, the examples above were exceptionally expensive and had virtually no fundamental support from earnings. They were momentum stocks that kept going up until they stopped going up…and then they went down…a lot!

The final point to consider is the "economic macro view". **Is it a good time to speculate in general?** You have a much better chance in participating and succeeding in a BULL trend of the overall economic macro view is positive, rather than neutral or negative.

One of the reasons I am bringing this idea up now is that, *<u>the longer the broadly based global stock market indexes trend "sideways" the more important it is going to be to take some portion of an investors "risk capital" and try to invest it to make a rate of return better than the general market</u>*.

BULL hunting is one way to try and accomplish the goal of striving to make a net 5% rate of return in a non-trending economic situation.

Another idea I have been thinking about for clients is "range trading".

Range trades are safer than BULL hunting because we are sticking with broader indexes of investments and we use stronger technical parameters to determine our buy and sell points.

The one obvious assumption we are forced to make using this strategy is that **the asset class we choose to range trade is actually in a trading range!**

A break out to the upside or the downside will hinder our range trading strategy. I will define a very simple range trading strategy in the chart below:

The combination RSI/MACD buy signal is very basic and requires both conditions to be in place: A RSI reading below 30 AND a cross-over of the MACD lines. The signal does not work well for SELL readings…I usually use a price target to sell to lock in the gain.

One rule of thumb with range trading. **You must always define your risk controls to your volatility (market beta) of the asset being traded.**

For example, if you set your downside risk control at 4% you range trade BCE Inc shares (BCE-T) but not Agnico Eagle (AEM-T). The daily volatility would "stop you out of your trade" too easily on the latter.

In summary: From my meetings with you so far it seems there is more of an appetite to look at some different strategies to use to try and make positive returns. In reality, I'm not sure exactly what is feasible to try and implement at this point.

I'm basically interested to see how much interest there is in considering this type of plan. Please let me know if this concept strikes a chord with you and we can discuss it to see if we can make it fit with your risk tolerances.

Japanese Christmas Time – 1989

Let's leap back in time!

Mortgages were a family legacy…they could be amortized over 100 years! The downtown financial district of Tokyo was said to be worth more than the entire state of California. The world was supposedly "Turning Japanese"…or so said the pop rock group "The Vapors".

How could any of these things be true…especially when we look from today's perspective? Well, let's use a chart of the Japanese Nikkei Index and see…

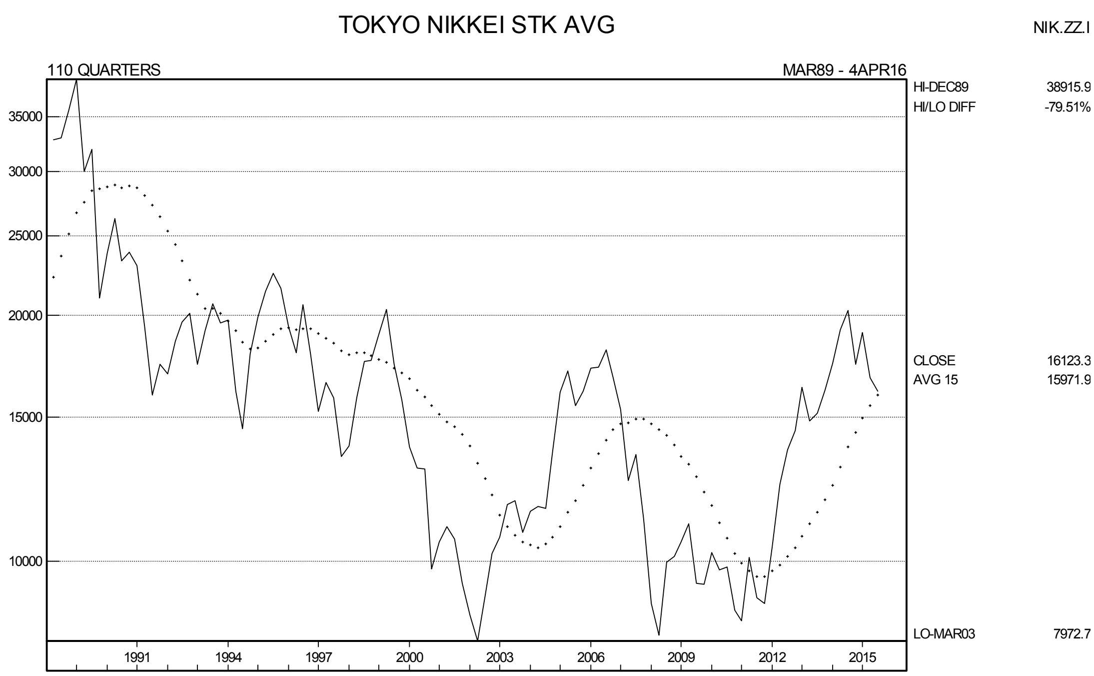
When I consider the long term trend in the Japanese stock market shown in the first chart, I really believe it represents one of the greatest BULL market in relative size and strength in history!

TOKYO NIKKEI STK AVG

But we all know what happened next. The important thing to remember is in Japan ALL of the BULL markets ended at once.

The <u>real estate bubble</u> burst, the <u>stock market bubble</u> burst, and the <u>economic bubble</u> burst…all within a 3 year time window. (As compared to the U.S. where the technology based stock bubble burst in 2000 and the real estate bubble in 2008.) Japan also took much longer time to drop their interest rates to zero.

TOKYO NIKKEI STK AVG



So why do I care about what is really ancient history?

Since the 2008/2009 recession and stock BEAR market I have been biased to a "deflationary" economic outcome for the balance of the economic world. In that scenario, I felt that another significant recession would take hold, asset prices would fall, debt levels would be dealt with, and a new economic cycle would emerge.

The new cycle would start from a place where the opportunity to earn a safe return on your investment would be coupled with a good chance of making a long term capital gain too.

But the central banks are simply not willing to accept a recession and lower asset prices. The idea of continuing the historically punitive policy of "financial repression" appears to have no end.

So I pose the question…are the global asset market "turning Japanese"? Is it becoming more likely that we just learn to cope with high asset prices and low economic growth?

Nobody can answer that question with any certainty…I just want to leave it hanging. But if the world is tracking the same economic path that Japan laid 30 years ago we, as investors, will have to adjust what we do to try and make better than GIC rates of return.

Over the next 6 to 8 weeks I will complete my client meetings. During that time I want to encourage you to think about your investment strategy.

Maybe we need to look at some different strategies given today's economic realities?

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.