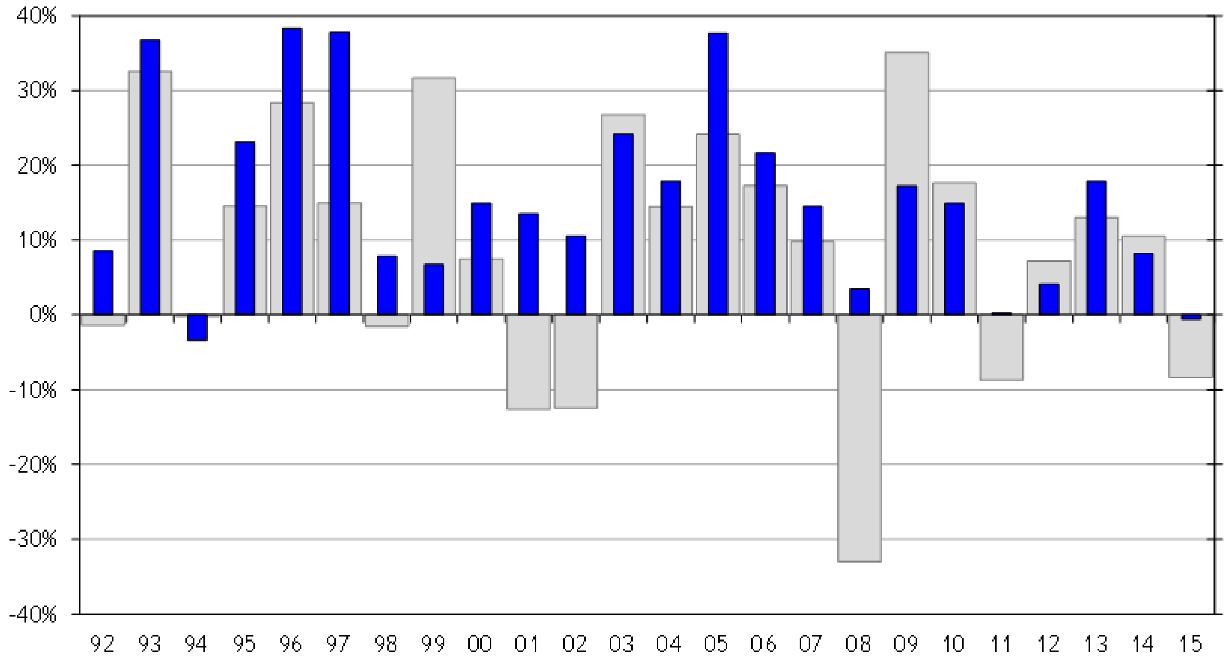
March 28th, 2016

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation:
S&P/TSX 60 Closing Value: 13,390
TSX 200 Day Moving Ave: 13,500
% Above/Below 200 Day Moving Ave: **0.57% Below**
Levels for change: 100% stocks - **TSX 14,272** and 50/50 at – **TSX 12,824**

Weekly Quote

There are no uninteresting things, only uninterested people. – G.K. Chesterton

Nick's comment – Last week's financial markets might take issue with that quote.

Response to Last Week's Comment

Thank you for your overwhelming response to last week's call to touch base with me. So far 46 clients have either met with me in person or by phone…or made an appointment to meet in coming weeks.

In between appointments I will be starting to call those I have not heard from yet and setting up either personal or phone meetings.

Feel free to send me an email today if you want to set something up BEFORE I call you!

As for financial markets…wow, it was quiet out there!

Last week was quite unremarkable from a financial perspective. Of course, on a human level, the terrorist activity was nerve-wracking but financial markets took the geopolitical in stride.

I always promised if I did not have a good discussion point to write about in my weekly comment I would not write anything. I actually think last week qualified financially as "not worth writing about".

Just a couple of bullets:

- Muted market response to terrorist activity is worth noting. Years past this type of activity roiled markets. I believe travel plans will be affected. Not so much the plans already made…but plans that "will never be made" because of the attacks. Lack of response by markets signals apathy. At the margin, the attacks will tend to mute future economic activity.
- "Frisky" commodity markets cooled last week as the US dollar started to hold its ground again. Quiet trade in commodities for the most part last week.
- Preferred share prices continue to strengthen. Investors are looking for stable income that might perform better in a rising interest rate environment.
- Junk bonds peaked in price and started to decline again.

It would not surprise me to see a quiet week again this week.

Let's see what transpires!

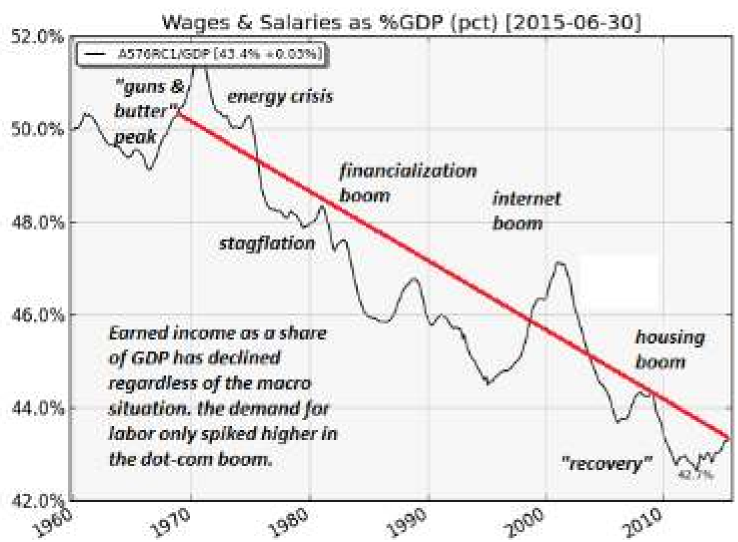
What Middle Class?

The balance of the weekly comment is just a series of charts that I came across in a couple of Tweets dissecting the financial conditions of the middle class.

As the old saying goes…*it ain't what it used to be!*

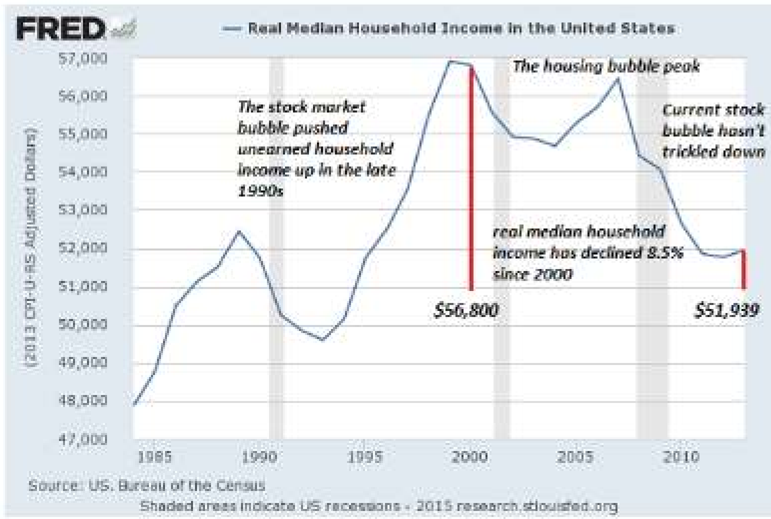
The first chart shows how for the years before the great annihilation of the middle class that income grew in line with productivity.

For those of you old enough to remember working in the two eras shown above, I would be interested to hear any stories you have about your own personal experiences of the way your income shifted during these years.



I included the above chart because it makes the point that even in the 1970s the middle class was starting to lose relative income when compared with Gross Domestic Product (GDP). I wonder where this chart goes from here?

Honestly, the chart below is the one I have used before and represents the biggest challenge for modern day governments. It shows “real” income…which means “adjusted for inflation”. (If inflation is 2% and wages grow by 3% then the “real” income gain is 1%.)



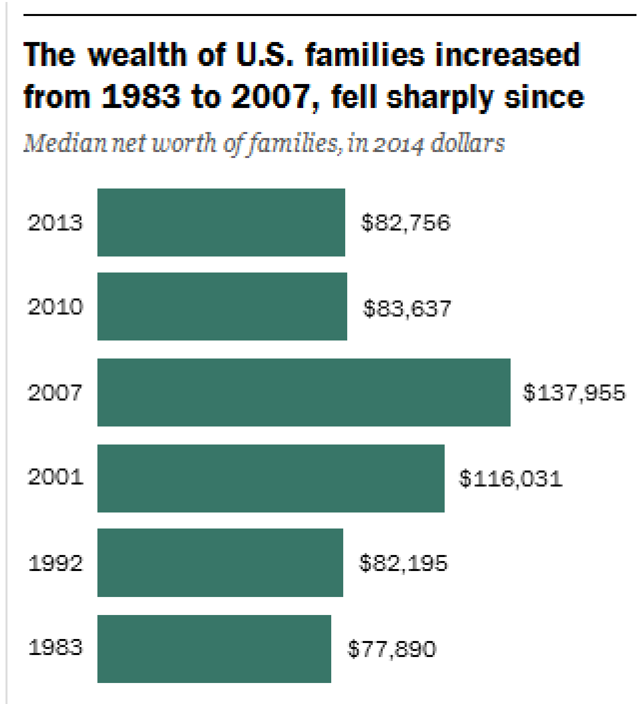
It is important to remember that this chart likely understates the inflationary impact on middle class wages. It has been a long time since the government has done an “honest” job calculating inflation as it truly impacts the middle class and the poor. *Hedonic revisions* and *intelligent shopper adjustments* don’t often play a large role in the lives of those living paycheck to paycheck.

So let’s think about all of the above for a few moments.

If incomes are not rising, but costs are, what do people do?

Answer: They either spend their savings or go into debt! (Or a little of both.)

Look at the chart below. It shows the median net worth of families in 2014 dollar values. It was working pretty nicely for a long time…but then things started to go wrong.



Remember, net worth is assets minus liabilities. Therefore, when one borrows to spend rather than taking out savings, it still impacts their net worth!

Is it any wonder that the middle class feels constrained financially?

Feel free to email back any comments you may have on this topic. I really am interested to hear what you think about the topic.

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.