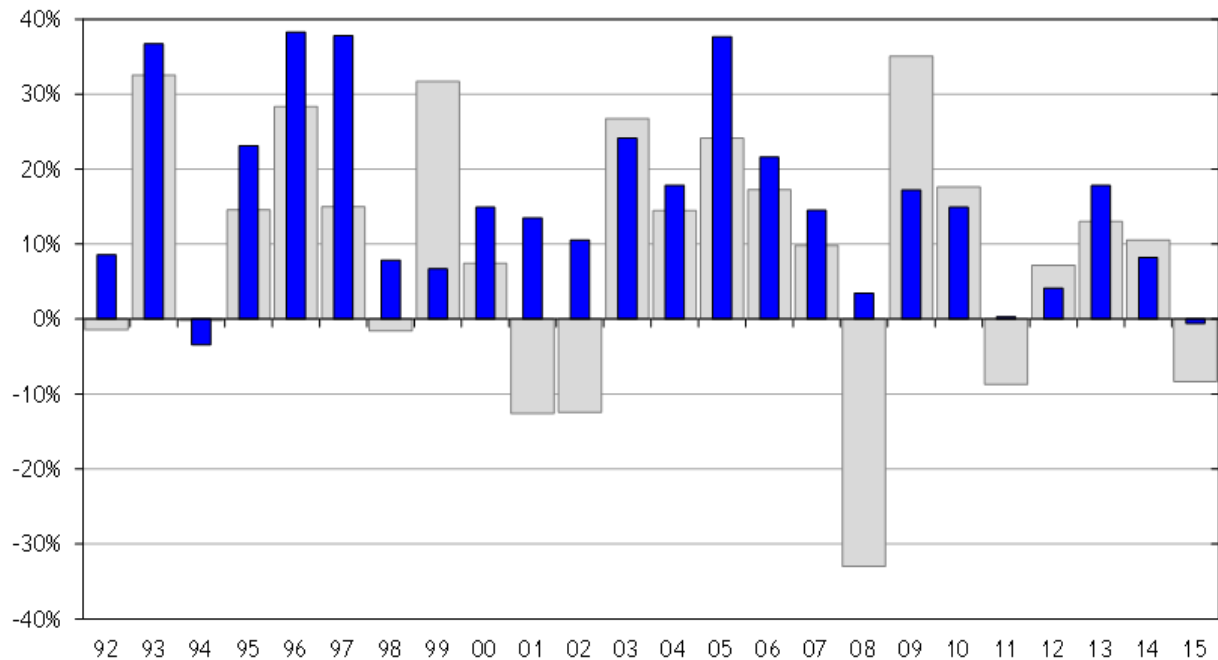


March 21<sup>st</sup>, 2016

## ***“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: 13,497

TSX 200 Day Moving Ave: 13,504

% Above/Below 200 Day Moving Ave: **0.48% Below**

Levels for change: 100% stocks - **TSX 14,276** and 50/50 at – **TSX 12,828**

### Weekly Quote

U.S. Fed: ***“Banks have ultimate responsibility for risk”***

**Nick Comment**...and taxpayers have ultimate responsibility for banks.

## Material Change to My Investment Outlook

Each week I write my commentary searching for issues that are both financially significant and interesting. Often when considering what to write about, I struggle to find a topic that is too different since significant change does not take place in the financial world all that quickly.

But today I am writing about significant change.

Usually my letter is in the form of an open blog meant to be enjoyed by any and all who are interested in money matters; **but this letter is specifically to my clients.**

**The intention of my letter is to let you know I am requesting a meeting (either by phone or in person) with each one of you in the next two months.** Let me give you a general idea as to what I see as “material change” and then, during our meeting we will discuss how to apply this change to your portfolio.

In the 28 years I have been working with the financial markets and advising retail clients on what to do I have never felt a client meeting was this important. The unique situation transpiring during this market cycle is “the natural flow of the financial cycle has been held back with an ever-growing torrent of monetary manipulation.” This has given investors more time to make decisions since normal “turning points” have been elongated by the central banks.

**Since the G20 meeting in late January 2016 there has been a coordinated effort by the Japanese, European, and U.S. Central Banks.** This effort has ended up with more than US\$10 trillion of bonds yielding negative interest rates worldwide AND strange new wrinkle in the “global currency wars”.

There is no way to know for sure, but it appears the central banks were aware that a wave of deflation was engulfing the planet and decided to take an extreme level of action using their policies of manipulating interest rates, printing more debt, and managing the global currencies in an effort to nullify the deflationary wave.

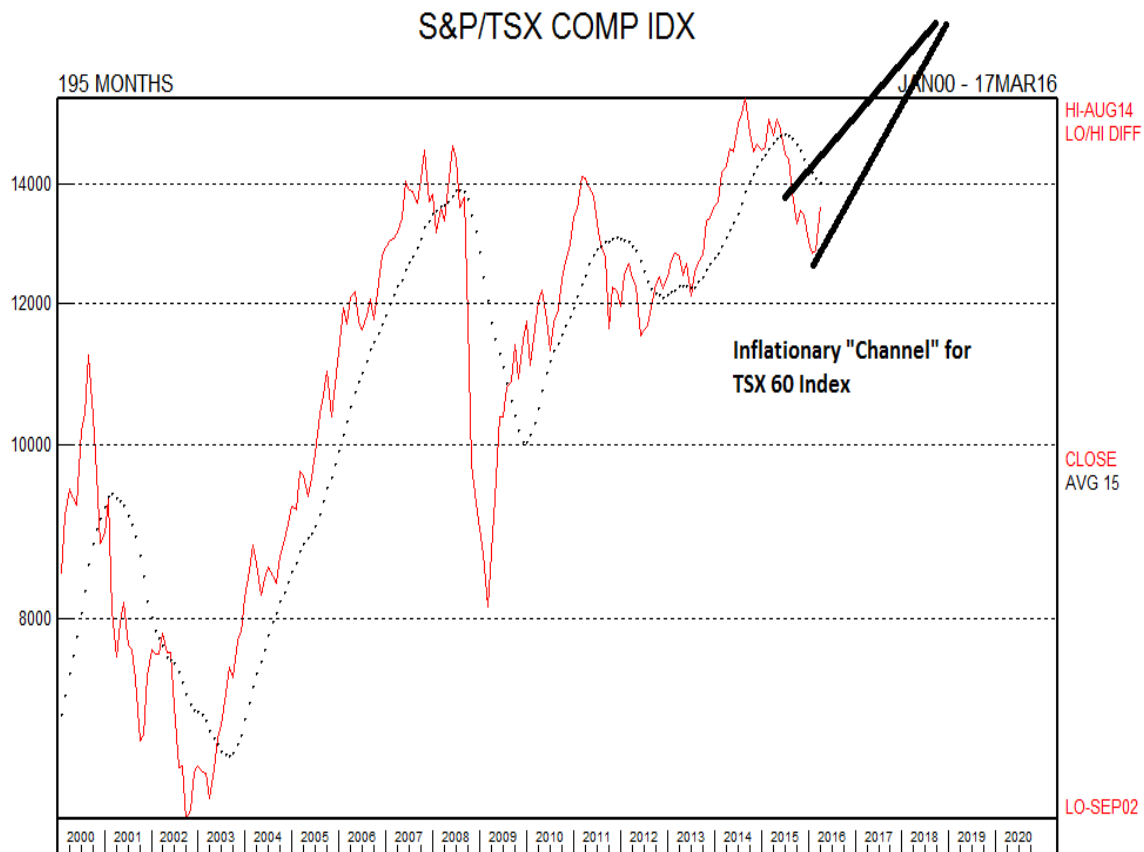
So here is the key point to consider: **If this effort is successful, the result could easily be an extraordinary level of inflation.** Of course, this inflation would take hold at a time when interest rates are not only low, but in many cases negative! This is akin to driving a rally car at full throttle with no brake pedal on a twisty mountain course.

**The material change I see is the global central banks have literally guaranteed they are going to be behind the curve as the inflation takes hold.**

If the central banks try to raise interest rates to catch up to the inflation, they will tank the bond, stock, and real estate markets. Therefore, they will be reluctant to start to raise interest rates until it is much too late and the inflation fever will have taken deep root.

I believe the material change in the financial world outlined above creates an exceptionally volatile environment for investors to navigate. **It creates a perfect breeding ground for a “blow off” run up in stock and real estate markets.**

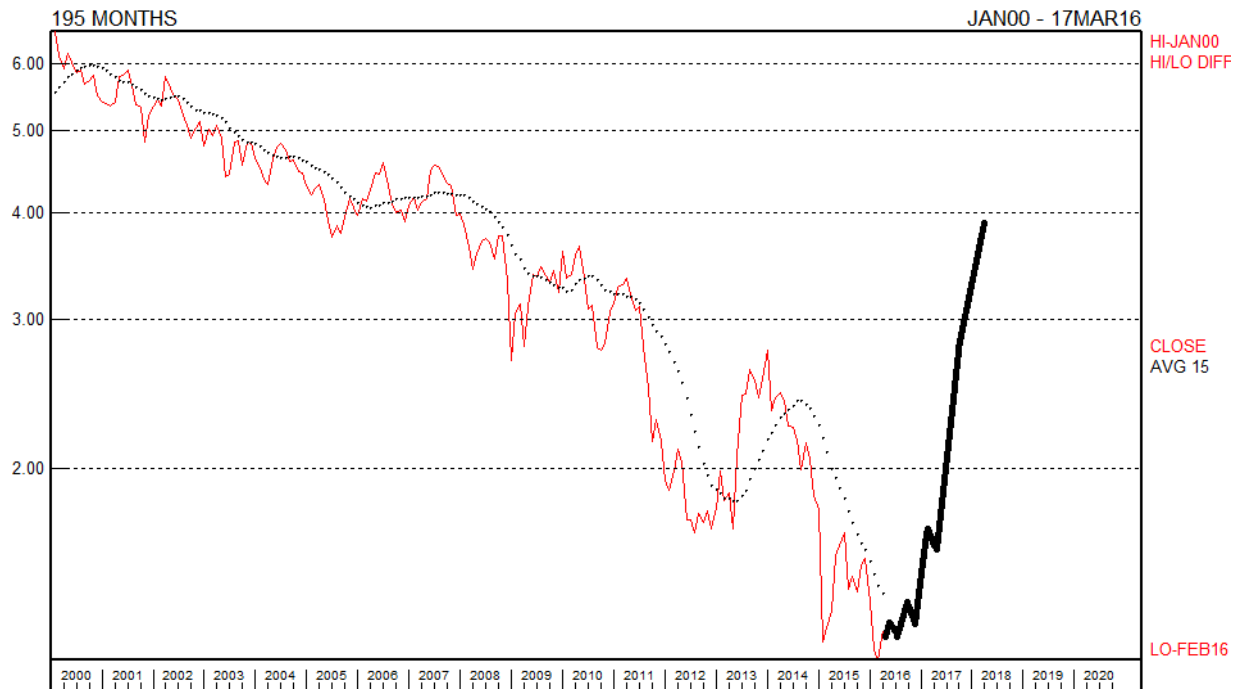
Investors and speculators are going to rush in and buy assets while interest rates are cheap and prices are rising. This will only add to the inflationary pressures already being created.



There will be a significant lag in the interest rate markets in response to the inflation. The central banks know that if “deflation” takes hold again then the tools in their financial tool kit are woefully lacking.

But that said, ultimately, the central banks will be forced to hunt around for the “brake pedal” and act to raise interest rates.

## CDA 10YR BOND YIELD



Actually, that is the most optimistic scenario I think is possible. If anything goes wrong along the way and the inflationary “kick start” falters, then market conditions will likely shift rapidly again and a new spiral of deflation could take hold.

**Call to action:** *Please email me back (or call me on the phone) and let me know when you would like to sit down and meet at my office or do a telephone meeting.*

My direct line is 250-729-3234.

I have thought long and hard about what I should be trying to do at this stage of the investment cycle. The plan I have come up with is not perfect but definitely allows us to profit from a long inflationary cycle or get out to the way of a sudden return to deflationary fears.

**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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