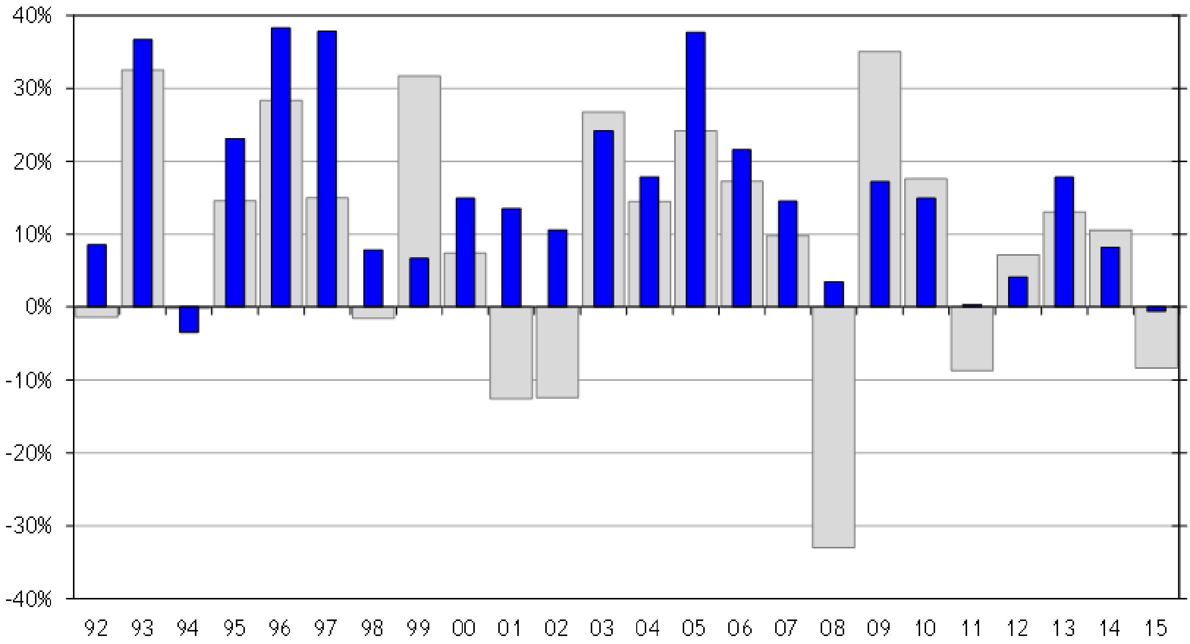
February 22nd, 2016

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: **0%** Equities/ 10**0%** Fixed Income
S&P/TSX 60 Closing Value: 12,814
TSX 200 Day Moving Ave: 13,730
% Above/Below 200 Day Moving Ave: **12.43% Below**
Levels for change: 100% stocks - **TSX 14,496** and 50/50 at – **TSX 13,116**

Weekly Quote

Market Update

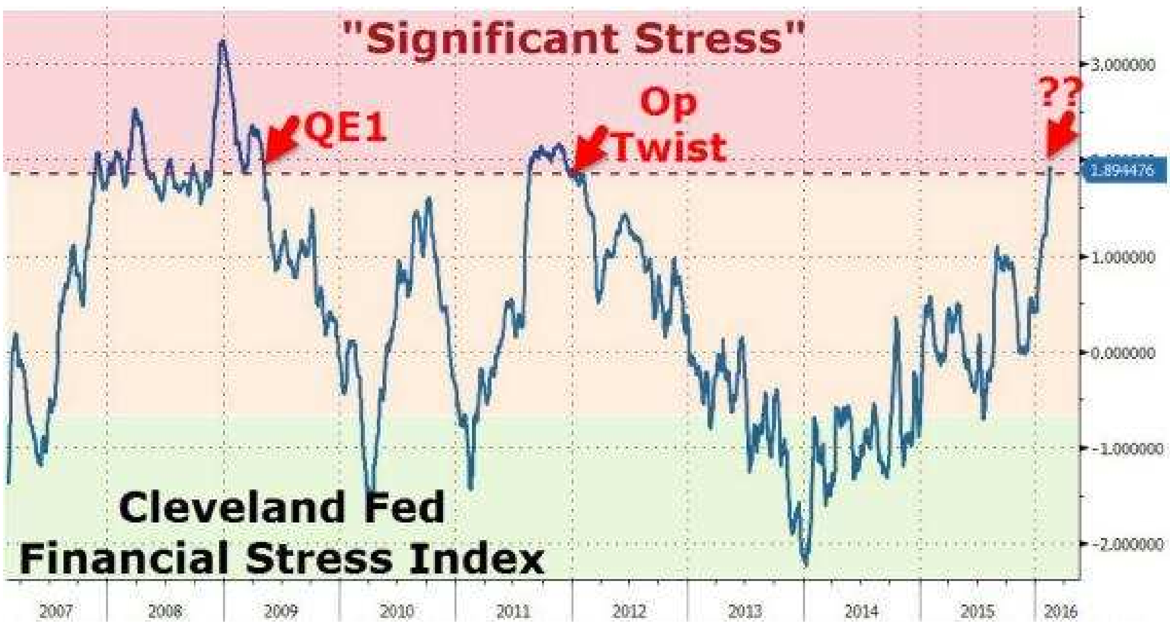
Last week was profiled by "counter trends" running in the opposite direction of the "primary trend" in many markets. Stocks were higher, bond prices were lower, oil was higher, and the U.S. dollar weakened slightly.

Much of the impetus for these counter trend moves was labeled as ***short covering***.[1] This was very true as the most shorted stocks and bonds outperformed the average stock and bond a factor of 50%!

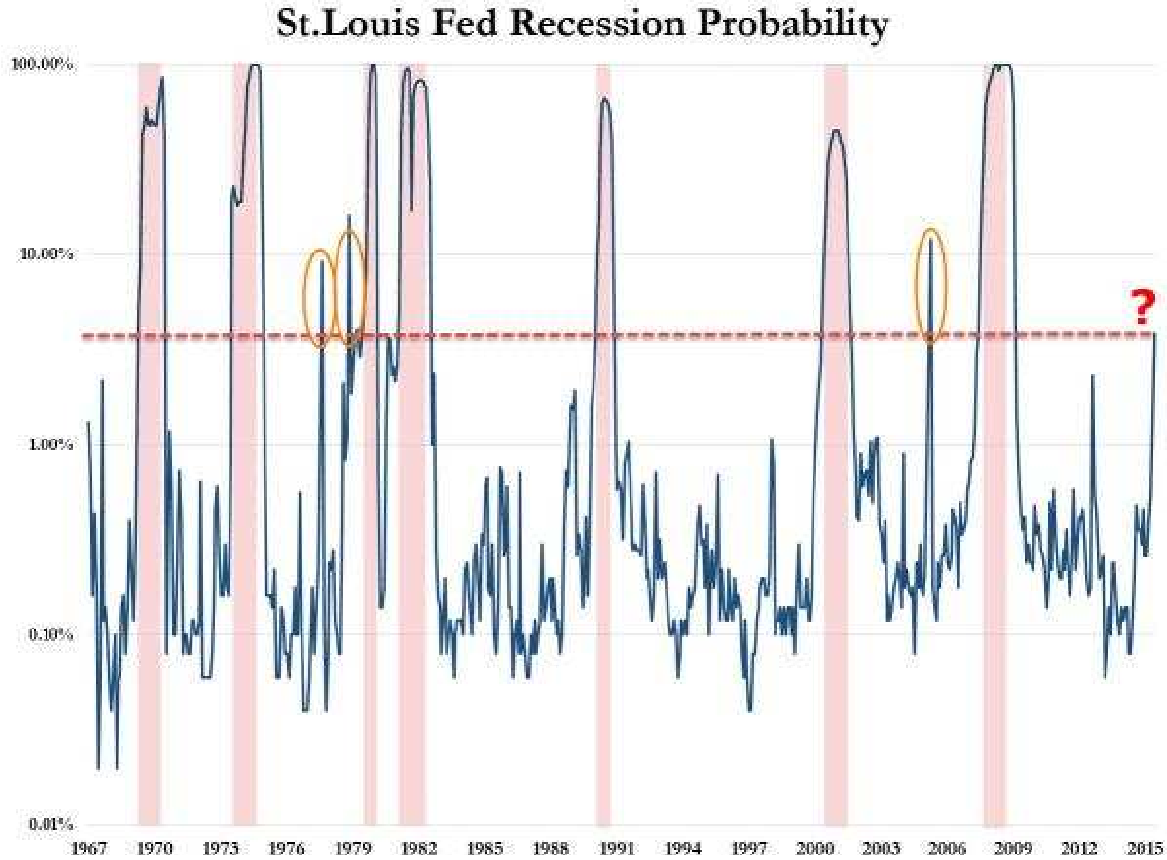
The pundits talk about short covering rallies like they all just die out and the BEAR trend will always settle back in. That logic is untrue…the final BEAR market bottom ALWAYS starts as a short covering rally too…but happens after multiple BEAR market rallies have been crushed.

By the time I got my research done to write this comment I had become aware of two realities:

1. Donald Trump had won a second GOP primary election. Nobody has ever won New Hampshire and South Carolina and NOT gone on to win the nomination.
2. Mid term "economic correlation indexes" have reached the level where the U.S. Federal Reserve has waded into the financial markets with another dose of Quantitative Easing during the past 8 years.



[1] Asset sold BEFORE it has been purchased. The idea is to buy it back at a lower price to make a profit. When the underlying asset starts to go back up in price, short sellers must buy back in to close out their "short sale". Trouble is that there are actual buyers trying to purchase the asset at the same time. The result: The asset usually goes up in price VERY quickly.



My reason for mentioning these two things together is hopefully clear. **Donald Trump is not a friendly choice for foreign investors looking into the U.S. He frightens them when they consider their investment decisions in their domestic country and when they consider investing in the U.S.**

If the "economic correlation indexes" are already this stressed, how far away is the next Quantitative Easing-like FED announcement? And what happens when this announcement is made?

Remember, in my annual forecast for 2016, my thought was stock markets would weaken and the FED would capitulate in their interest rate lifting escapade. I thought they would get two increases done in 2016. That forecast now looks optimistic…I will be surprised if they get another rate increase in now.

<u>There is a reasonable chance the U.S. could launch another QE program before the end of March 2016.</u>

The initial reaction to financial markets will be euphoric. Stocks will go up in price, specifically financial stocks! How long the euphoria lasts is going to be the real question.

Investors need to consider this situation carefully. There is a decent case to be made to get more BULLISH here on stocks trying to "*get in front*" of the FED announcement. I believe some of the buying in markets last week was just this type of investing.

But don't forget, the overall message of financial markets is getting clearer by the day:

1. Policy makers and central bankers have failed in what they intended to do with Quantitative Easing policy 8 years ago. More extreme measures of financial madness are eliciting less market response.
2. The world is sliding deeper into debt that will never be repaid in currencies valued anywhere near what the "coloured paper" is valued at today.
3. Protectionist policies are growing globally as economic models flounder and *real jobs that pay real living wages* get tougher and tougher to find.

Coming weeks will be really interesting. I sometimes wonder what "*Make America Great Again"* means to individual people when the rally around that statement? I bet the picture is very different for each person. It is what makes the slogan so powerful.

That's about all I can say this week that I would be comfortable standing behind. A sharp move higher in markets feels as likely as the same move lower to me right now. The world has changed so much….

And speaking of that change. The rest of the weekly comment is a log of personal thoughts I had while on vacation. See if you can relate to what I am getting at in the following section.

<u>We Already Spent That…</u>

While on vacation I was walking down N. Scottsdale road in Arizona with a feeling of awe. For miles in every direction there are places you can spend money. Restaurants, retail, cars…you name it…it is there!

There is consumption built for every budget too. It doesn't matter how much or how little money you have…there is a venue that will let you spend more than you really should have.

After going on a long walk and thinking about how "unbridled consumption" has changed our world, I walked into the condo parking lot where we were staying and I see a bumper sticker staring back at me saying: *"It's all about me".*

I chuckled to myself…and thought "that about sums it up!"

So where does "*it's all about me"* leave us economically in 2016? Here are a few broad thoughts…

If one buys into the concept of *"all about me"* then logic tells us **it is not about anybody else.** That means it is OK for me to spend what I have (and even what I don't have) for my pleasure. Whatever is left after I am gone is the next person's problem; not mine.

The *all about me* philosophy is nothing new in history but I believe our present day situation has taken it to a whole new level! It is simply over-consumption. It is also not limited to individuals. Companies and countries engage in the practice as well. And sadly, the changes that happen to society are similar in each epoch of over-consumption.

- over-indebtedness grows at the personal, corporate, and government level.
- Income inequality skews…the rich get richer and the poor get poorer.
- Government entitlements become a larger part of the income grid for the lower and middle class. This tends to lead to greater amounts of government debt and becomes self-perpetuating in nature.
- The sense of "community" gets lost as individuals try to grab whatever is "rightfully theirs".
- As the cycle ages, Global trade and commerce are hindered by "protectionist" policy.
- And something new in our recent situation, global financial markets are high-jacked by central banks trying to keep the present financial landscape glued together.

I could loosely argue that each economic dynasty throughout history has crumbled via different versions of over-consumption. But we will leave that for another day.

To keep the "*all about me"* economy from becoming unhinged, interest rates have been forced to what was once considered theoretical lows. And what has resulted is a strange set of economic conditions.

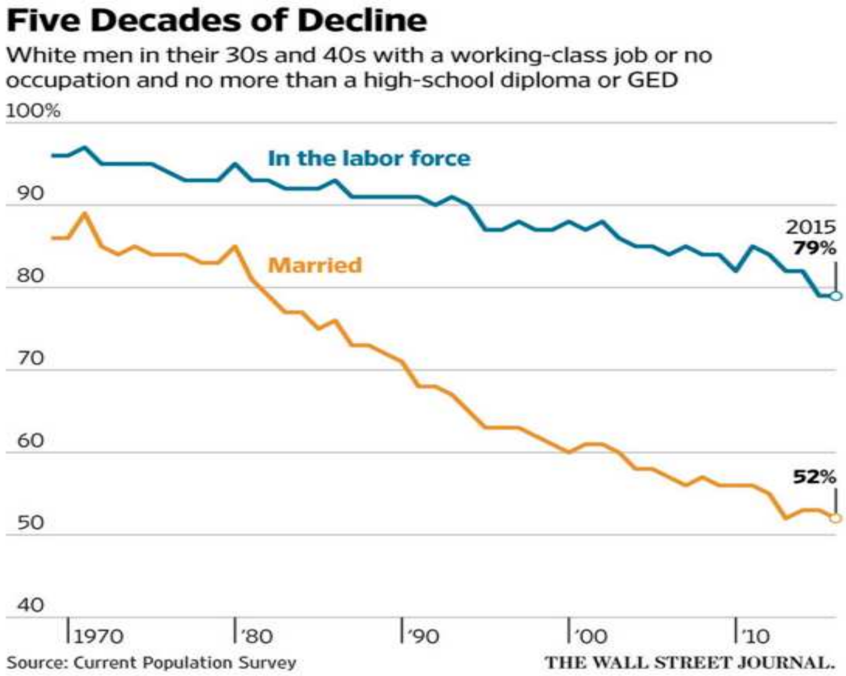
For one thing, the manufacturing economy has gone AWOL. What started off as a shift from west to east in manufacturing has morphed into general decline globally.

"Services" rule the economic growth models of the new century. **And generally, we consume these services by adding debt to balance sheets.**

This brings me full circle back to my opening remarks. **A world that is built on consumption is destined to be a world that is dictated by the philosophy of "all about me".**

To finish we will look at a couple of charts and ask the question**, is there a way back to a balanced economy where <u>manufacturing</u> and <u>service</u> sectors complement each other and debt levels stop soaring without a major economic upheaval?**

Chart 1 shows the American decline in labour force and marriage rate for white males aged 30 to 50…..



Remember, these white men with little education were the back-bone of the manufacturing economy 30 years ago. Today, they are unemployed or under-employed in the service sector as "waiters and bartenders".Chart 2 shows the demographic areas of jobs growth in the U.S.:

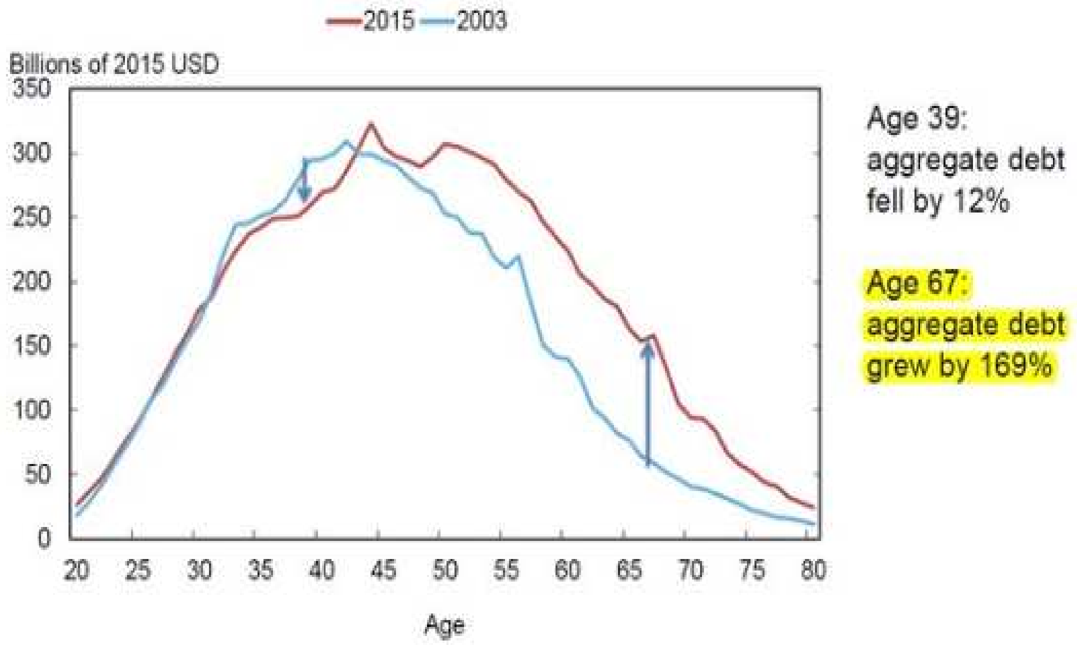
Over the years, the chart above has been one of the most disturbing trend charts I have seen. It is not enough just to look at it and then move on to your next thought. Consider how much the economy has changed to get to a point where the data in the chart above becomes an economic reality.

The chart above also begs the question, why in the world are all these people aged 55-69 wanting to work anyway?

Well, check out then next chart!

Chart 3 shows the aggregate debt held by different age demographics in both 2003 and 2015. Again, take a few seconds to study what this chart is saying. I had to spend a few minutes on it to let it sink in.

When I finished thinking my only response was, “how did this happen?”



In real terms, debt in the hands of Americans aged 50 to 80 has increased by 59% since 2003.

Personal finances have changed in the past 40 years! We see reflections of these changes in the political realm.

No matter what your opinion is of Donald Trump you need to understand that his message is directly related to these thoughts. As the poor and middle class wages have stagnated over the last 40 years their level of resentment has risen…a lot!

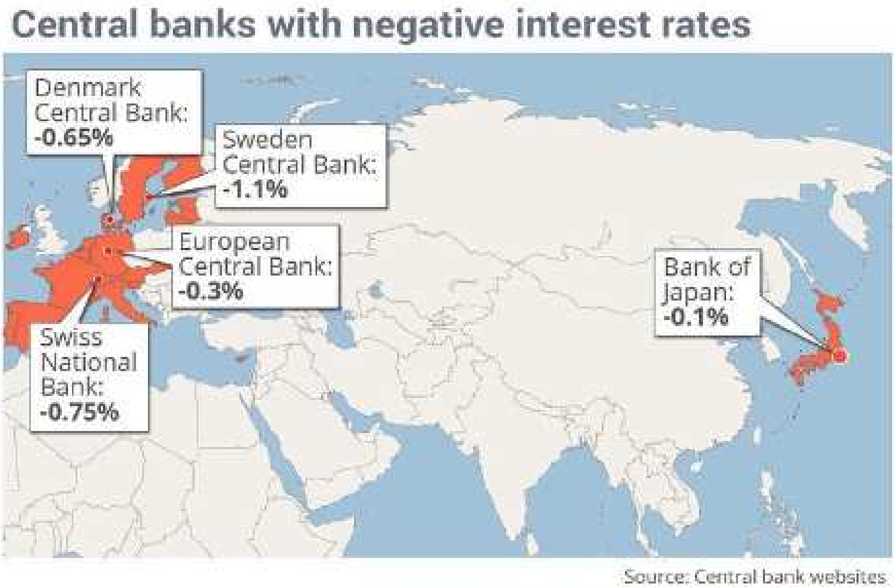
Remember, the poor and middle classes are not only “Republican” voters. The “Democratic” poor and middle classes feel the same feelings too. I get very nervous when I think about that fact!

Look at the global stock markets. The “great” companies around the world are no longer manufacturing companies. They are a bunch of financial companies (or related to financial operations) or idea based companies. **Their common Achilles Heel…they are ALL based on the debt laden, present day financial system staying functional.**

I hear a few of you out there saying, “Hey Nick, real estate is different.” My comment back to you…We will see.

I have no better view into the future than anybody else. One could easily make the case that the present conditions could last for years longer…and they could.

But that said; it feels like the game is changing. The start to 2016 has been as crazy as I have seen in my 28 years working in the financial markets. Look at the following chart showing countries around the world that are already employing Negative Interest Rate Policy. (NIRP)



Clearly, NIRP reeks of an “act of desperation.” Who could have ever guessed?

May you live in interesting times!

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.