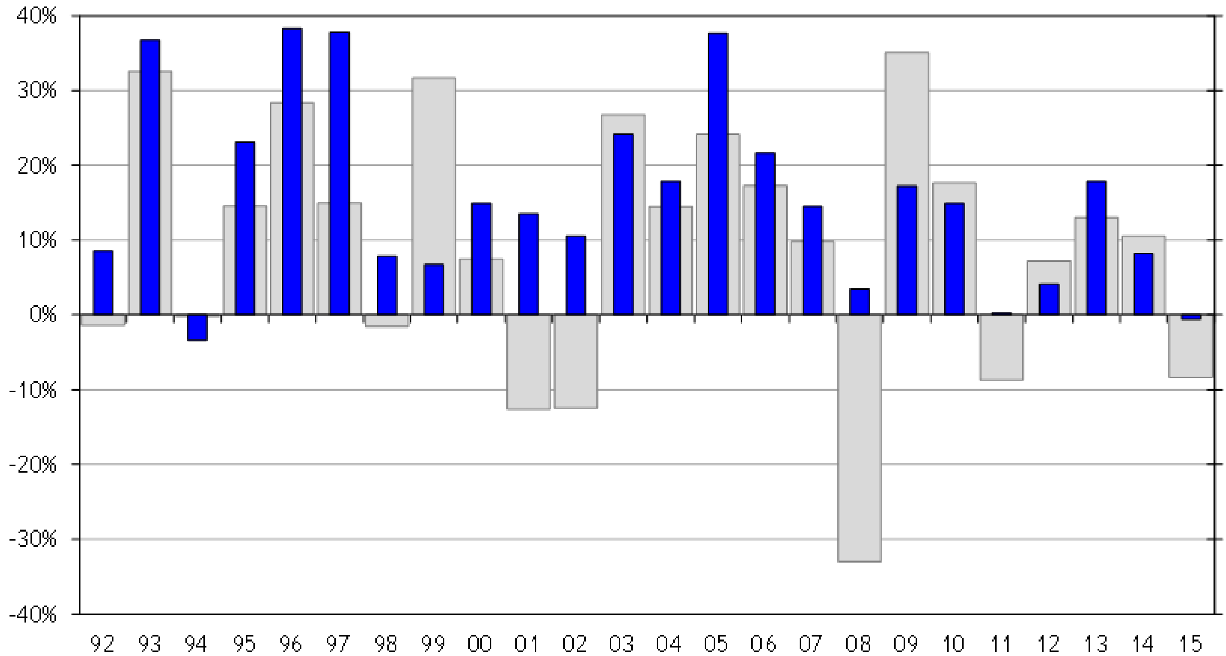
February 12th, 2016

"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: 12,090
TSX 200 Day Moving Ave: 13,806
% 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

"Gold is nothing but a pet rock"

Jason Zweig, July 2015 in the Wall Street Journal.

Nick Comment: "Pet rocks" had a great week!

TEAM Allocations as of February 1st

Canadian Portfolios

TEAM	remains 100% Fixed Income
TEAM II	remains 100% Fixed Income

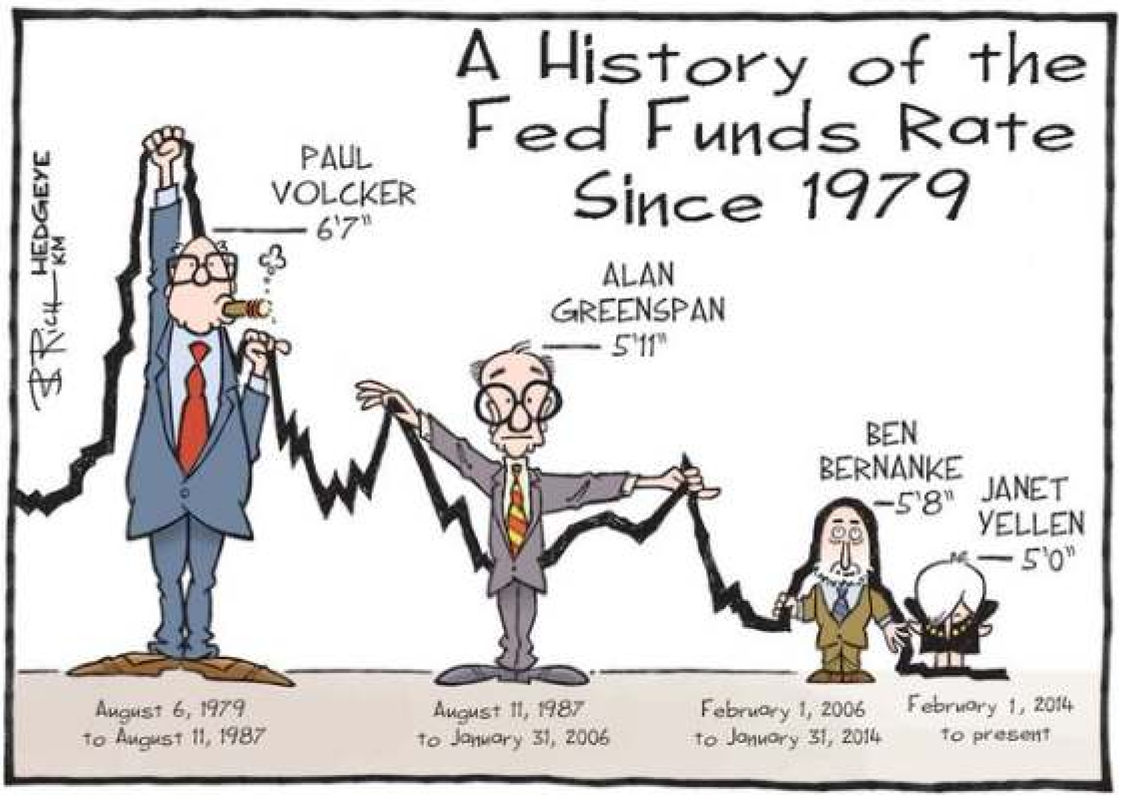
US Portfolios

TEAM	enters into 100% Fixed Income
Large Cap Tactical	remains 100% Fixed Income

A Smile and a Bit of Perspective to Start….

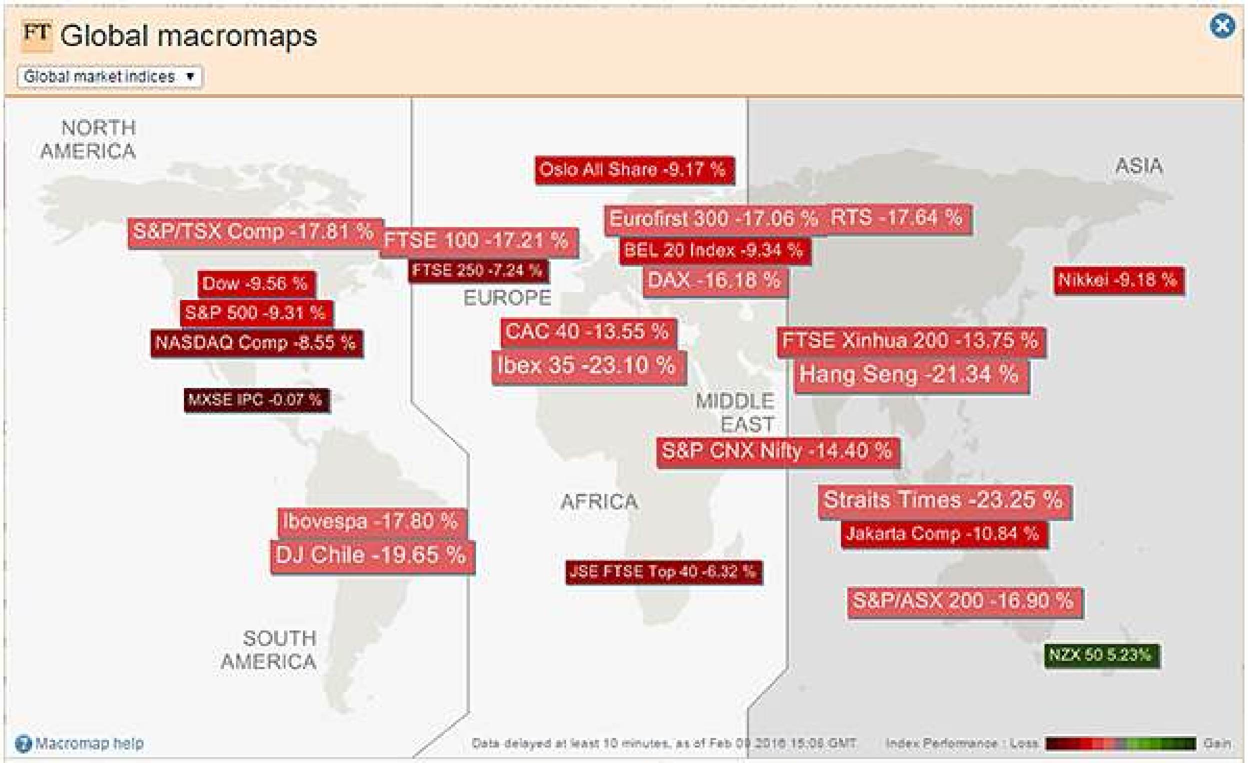
Sorry, I just could not resist adding this cartoon.

It seriously cracked me up!!!



The graphic shows the past four Federal Reserve Chairs, depicting their actual heights and the relative level of U.S. interest rates. With Janet Yellen only standing five feet tall, I had to ask myself who do they get for the Fed Chair when U.S. interest rates go negative?

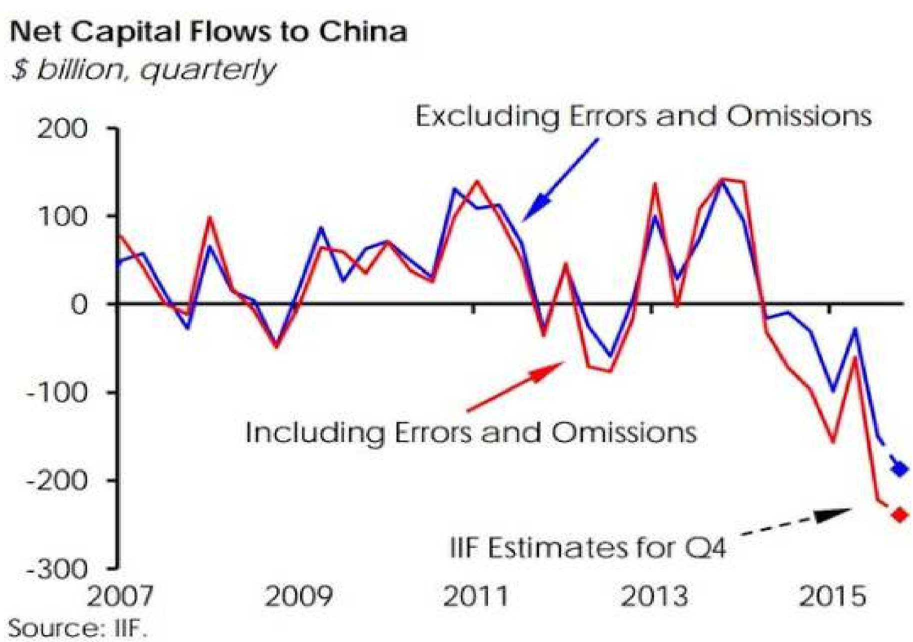
The next graphic offers perspective to how tough the start of 2016 has been for global stock markets.



Just for the record, 2016 has been the “worst start in history” to global stocks!

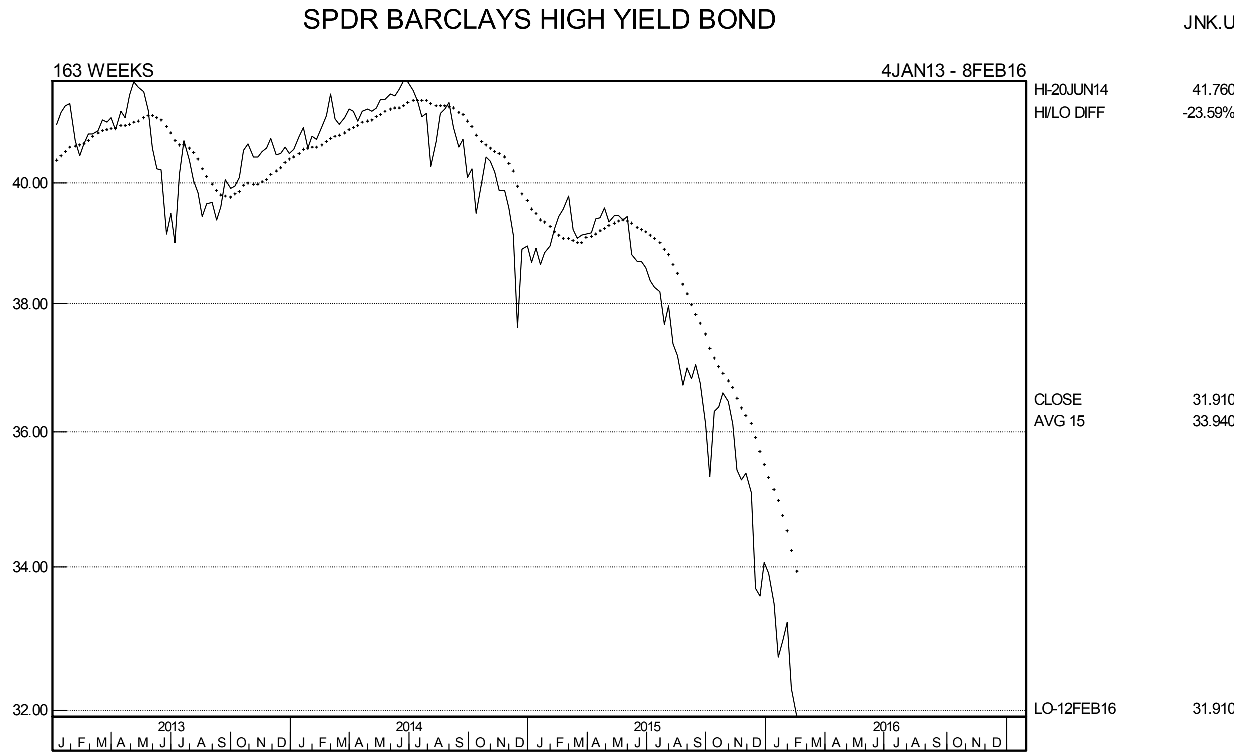
China Money Flows…

The chart below shows how quickly money is flooding out of China. Remember, one of my big concerns in 2016 is the Chinese government institutes AND ENFORCES capital controls.



Junk Continues to get Crushed

"Junk bonds" or more politically correctly referred to as "High Yield", have continued to carve out new lows on their prices. (This means the yield is rising on these bonds.)



The key concern here is that much of the stock market move higher has been caused by **share buy-back plans** by companies. Now, the yields have gone high enough that many of the companies do not see it as a good idea to buy back their shares with debt this expensive.

Canadian Stock Market Comment

Before I left on vacation, I used the following chart estimating the amount of "bounce" the TSX would have over the coming few weeks.

(Geek's note: How I come to make a forecast of the anticipated bounce in a market index is I take an intermediate high point and the following low point and net the difference between the two numbers. Then I anticipate a 60% retracement of the net difference as a "bounce".)

Now, let's look at what actually happened…

The blue line denotes where the "bounce" prediction was made in the first chart.

The thin green line represents the upside target used in the first chart. **The TSX never really held above the green line for much more than a trading day.** I would argue the "bounce" forecast two weeks ago was close to text book normal…given the craziness of the stock markets!

To be completely frank, **the insanity of the stock market pales when compared to the global bond markets.**

Every day that passes sees more and more government bonds fall into negative yields. At the time of writing the accepted figure resides in the $8 trillion US amount. Imagine,

$8 trillion being held by "someone" who has to pay a sovereign government for the privilege of depositing their money with them!

Now that is really messed up!

Let me be extremely brief at what I expect.

1. Stocks will remain weak, but the U.S. Fed still has one card to play. The Fed will back away from the policy of raising interest rates.
2. In backing away, the Fed will make a choice and announce one of two programs: Either Quantitative Easing 4 (QE4) OR Negative Interest Rate Policy (NIRP)
3. I believe this announcement is the final arrow in the Fed's quiver. (They may pursue more insane policies after this move but, they will not have a shred of credibility left by that point!).

My speculation is that QE4 will be seen as positive (BULLISH) for stock markets and that NIRP will be perceived as negative (BEARISH) for stock markets.

A wild stab at where the Fed might make this type of announcement: Maybe at the S&P 500 level of 1750. (Present S&P level around 1850).

That is about as much as I would say at this point. Every day is a new set of circumstances. Be patient.

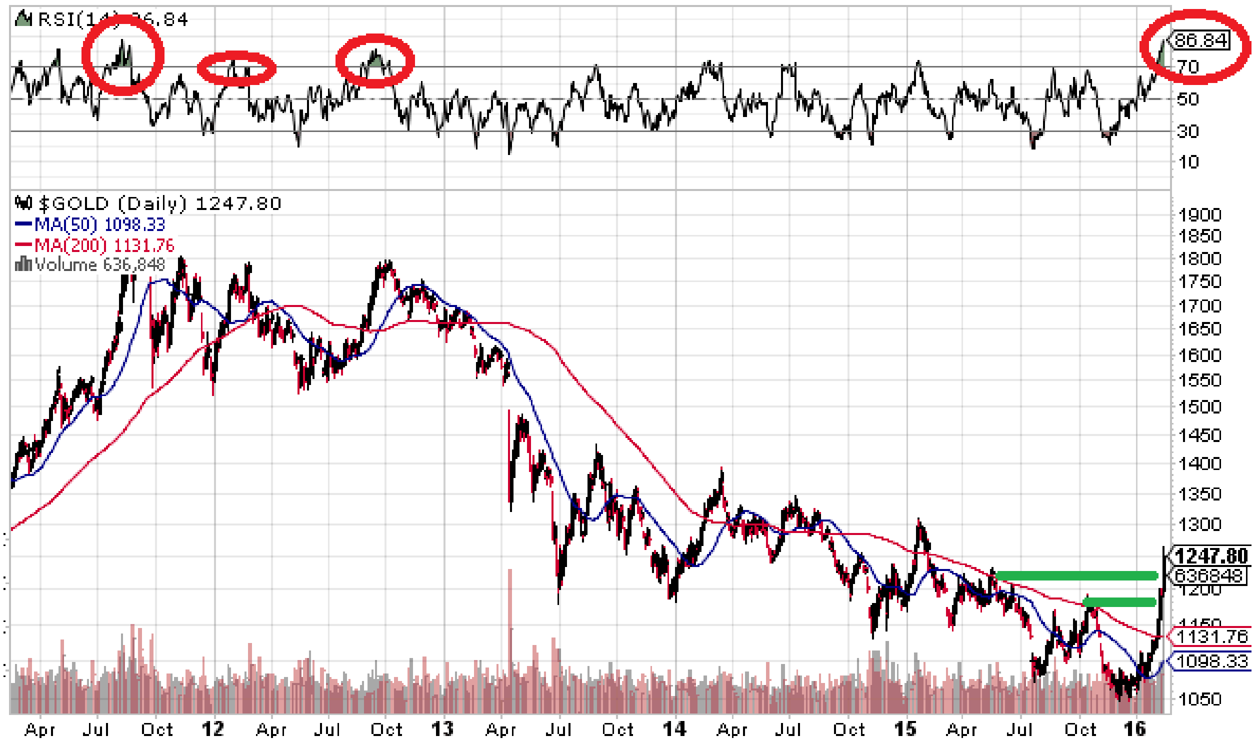
Gold

Gold has burst back on the scene over the past couple of months…after nearly 5 years of declines.

Gold accomplished two BULLISH feats in U.S. dollar denomination this week.

1. It climbed above its' 200 day moving average.
2. It made a higher high chart bottom.

The chart below makes this case and point.



The good news…Gold closed above the two preceding price peaks from the past year. That has a high probability of signaling the end of the BEAR market.

The bad news…Gold's relative strength index has jumped to nearly 87 (red circle in chart) and this means it has gone up too quickly.

If you own Gold…hang on with your positions. I think the fun is just beginning. If you don't own Gold right now, only buy a small starting position on the break out pattern shown above and add on a declines to the $1190 US level.

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.