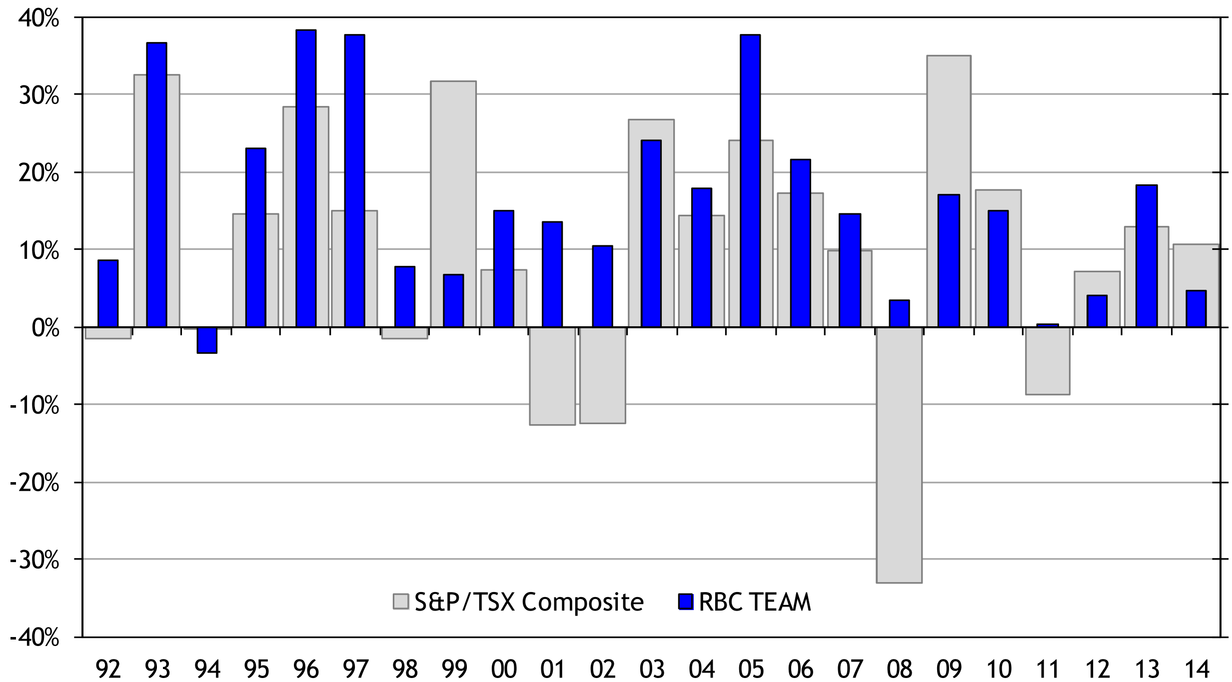
January 25th 2016

"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: 12,389
TSX 200 Day Moving Ave: 14,001
% Above/Below 200 Day Moving Ave: **11.51% Below**
Levels for change: 100% stocks - **TSX 14,710** and 100% fixed income – **TSX 13,300**

Weekly Quote

"Why do people like spending money they don't have on things they don't need to impress people they don't like?"

David Ramsey, Financial Peace Seminar quote.

Market Update

The “expected bounce” in global stocks came a week late…but it finally made it to the financial markets. It took the “jawboning” of both Mario Draghi of the European Central Bank (ECB) and Kuroda of the Bank of Japan to get it to stick…a fact we should not lose sight of!

So how far does the bounce run and how long does it last?

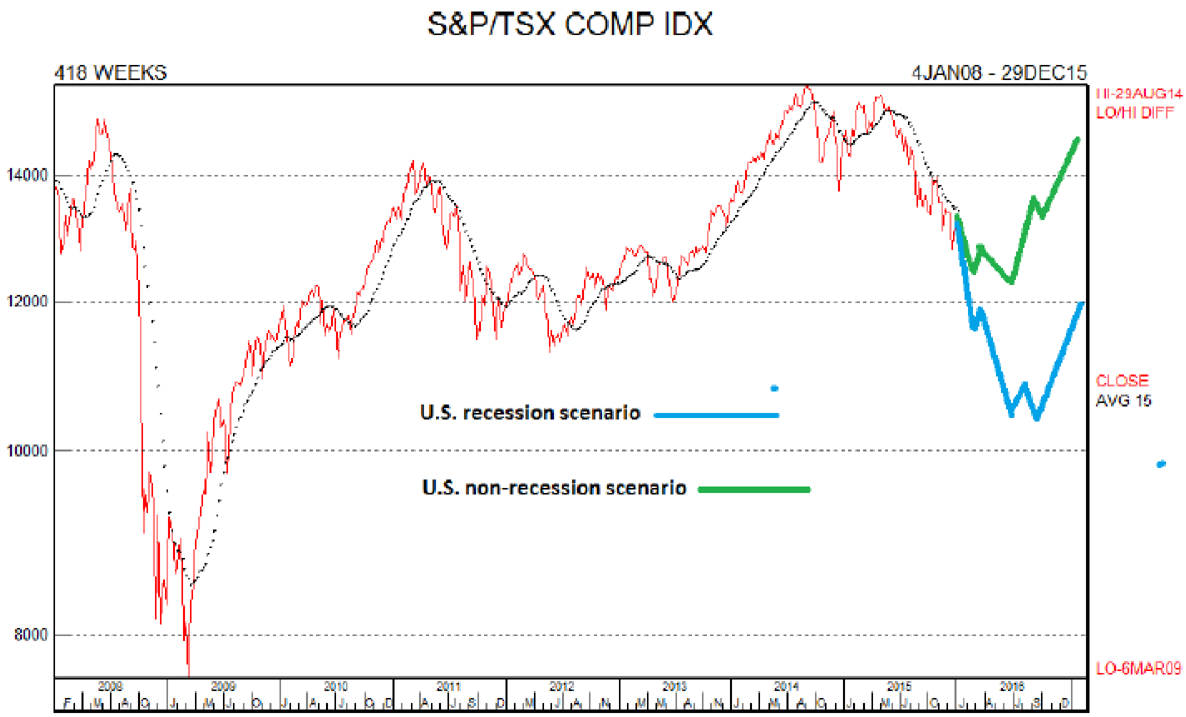
I am going to use the “run of the mill” bounce formula to answer that question. The usual BEAR market bounce retraces 60% of the short term decline that preceded it. The chart below shows you what I would expect for the bounce to look like in Canada.

The chart uses the past 30 days of trading and sets a target of 12,620 on the TSX as a stopping point for a BEAR market bounce. **It is only above this level for the TSX that I get interested in longer term investing again!** (Rather than trades.)

The best clue as to when another decline may start to take hold is the Canadian dollar vs. the U.S. dollar. The CAD$ has bounce from the 0.68 range back to the .708 range at time of writing.

As for timing, bounces in BEAR markets don’t last all that long. **My hope is that the TSX is able to hold above the 11,600 level until the end of February.**

Below I am re-showing the chart I used in the 2016 market forecast. It is still too early to make a call as to whether the U.S. is in recession or not but the chart is tracing out a much closer trend to the “recession” call than the non-recession call.



In summary, be careful who you listen to when getting your financial news. The BULLS are talking "the bottom" after two days of bounce. **Bottoms are not made in two days when the economic conditions are like the ones we see at present**.

That does not mean "the bottom" has not been seen already for 2016. **If the Canadian dollar can continue to rally with commodities and the U.S. does not enter a recession the green chart pattern above could be playing itself out.**

Let this rally mature…and let's see if the stock market rally fails and slides to "retest" 11,600 on the TSX. To get BULLISH, I think the 12,620 TSX level is a great place to start getting serious about a **neutral** call for Canadian stocks.

Two more quick observations:

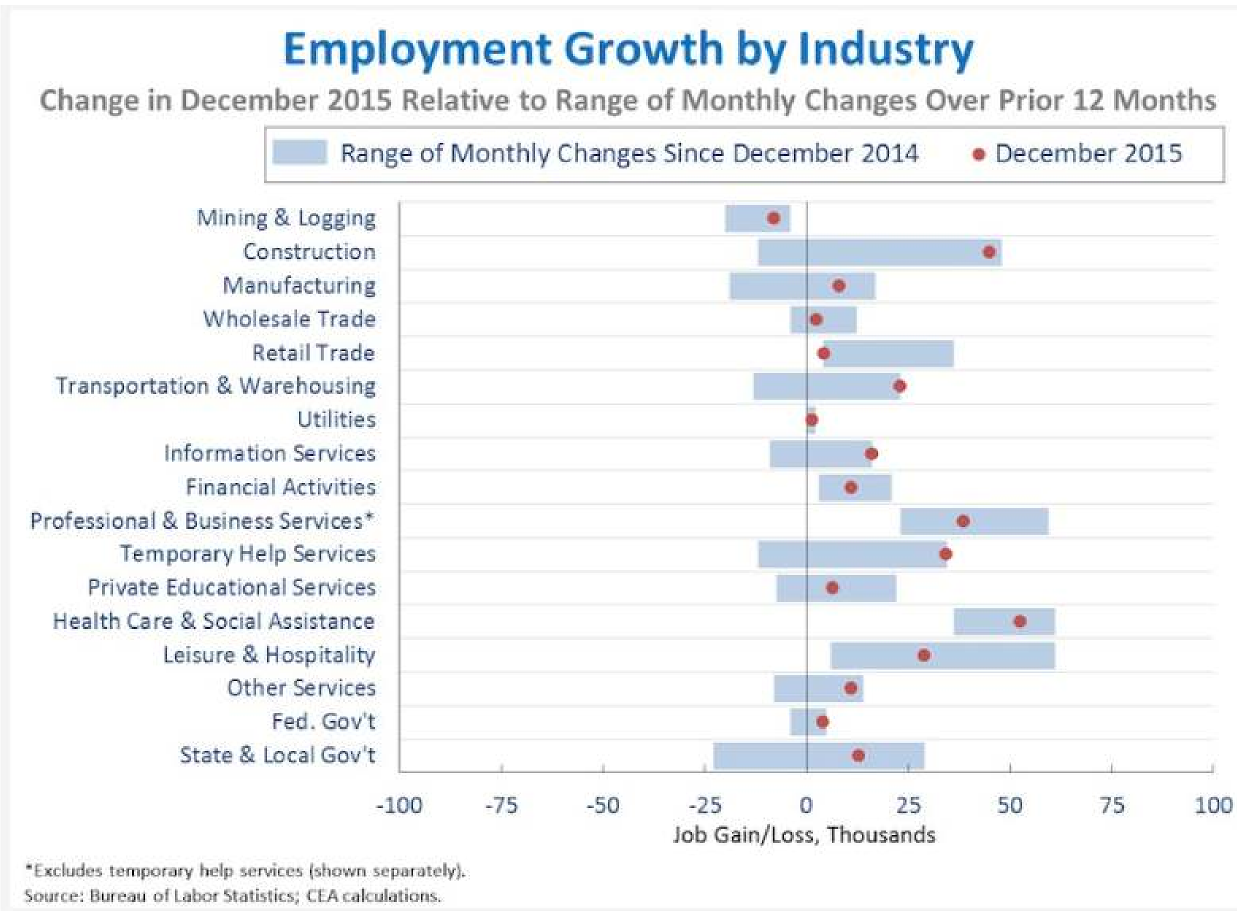
1. **Bank stocks in the U.S. are still trading poorly**. I would feel much better about a sustainable low for global stock markets if the U.S. banks would start to gain a strong bid.
2. **Oil prices are moving against fundamental data**. Looks a lot more like "short covering" than a fundamental bounce. You never know for sure but…be careful.

Dynamics of the Employment (Jobs) Reports

This will be short and simple…I promise! But it is important to grasp a broad understanding of what is happening in the North American employment market.

Analysts come on T.V. and say how low unemployment is in our economy. President Obama brags about creating millions of jobs and cutting the unemployment rate in half from when he took office.

But the good news does not play well on “Main Street…”

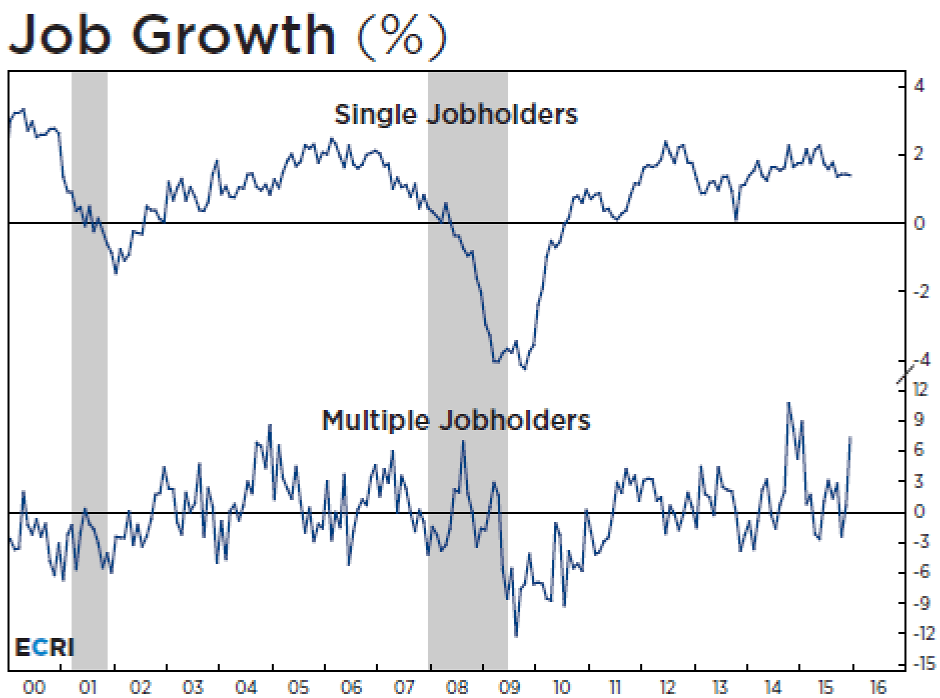


The chart shown above is a representation of the last monthly jobs report in the U.S. The red dots show the number of jobs added in the sectors in the corresponding sections of the economy. The blue bars show the range for the past year.

Every sector is positive except “logging and mining”. So all the good news must be true…right?

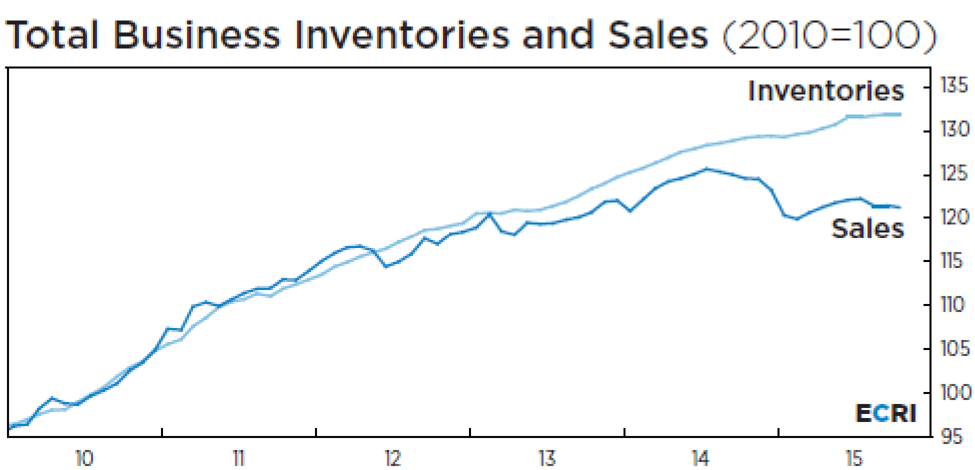
Well…yes and no!

As the chart below shows, there has been an incredible growth in PART TIME jobs. With only part time jobs (and no benefits) people are forced to hold MULTIPLE JOBS to get by.



Shaded areas represent U.S. business cycle recessions.

In the chart below we see that U.S. consumers have been unable to keep up to U.S. production.



When you add the facts together: elevated debt levels, growing inventories, slowing sales (especially ex-autos), and falling commodity prices you have to be extremely cautious on your outlook for economic growth.

Quality job growth requires quality economic growth…no short cuts! Just remember that fact!

<u>"The Russian Ruble"</u>

Before you say, ***how does the Russian Ruble fit in with my investments***, I want you to consider how much the falling Canadian dollar has impacted our Canadian cost of living prices. Now imagine the Canadian dollar falling to about $0.30 U.S. rather than only $0.70 U.S.

Ok, now you can look at the chart…

Could such a serious decline in the Russian currency cause Vladimir Putin to act irrationally? I'm not sure, but the decline in the Ruble has been severe!

There are so many strange and severe movements in the currency markets these days. This is only one example. **But there is a strong correlation to countries with difficult social problems and/or middle class stress and those countries that have seen their currencies debased.**

More food for thought!

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.