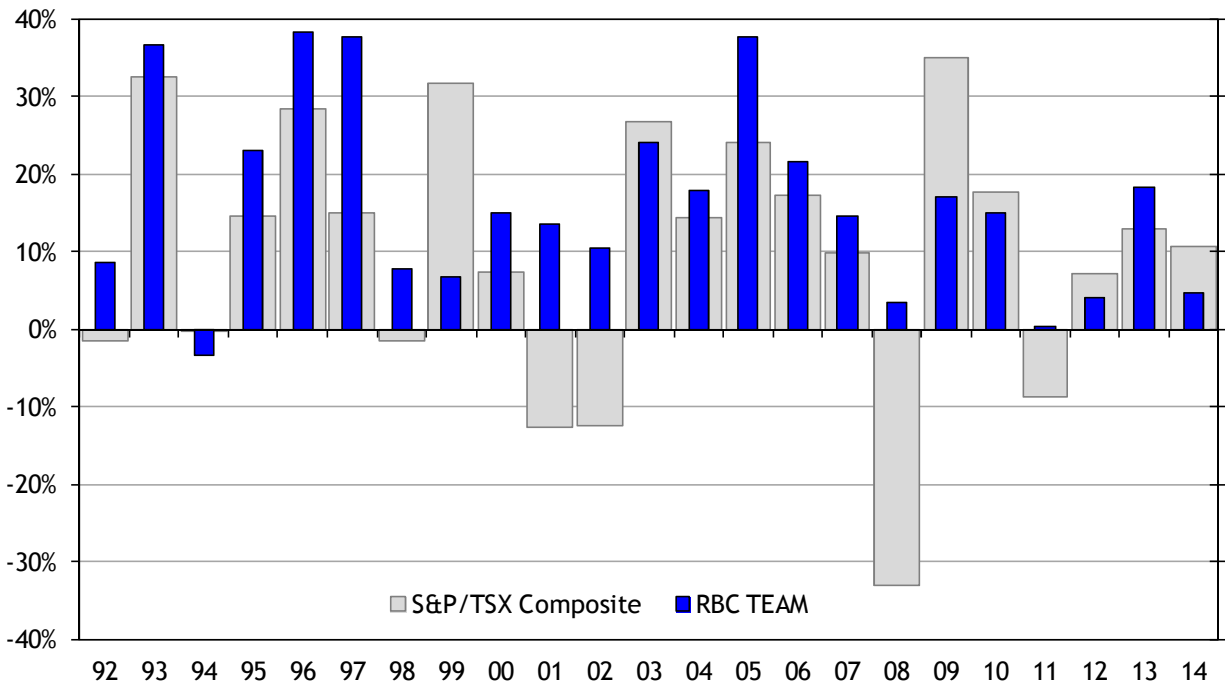


January 18th 2016

“Won2One” with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: **0% Equities/ 100% Fixed Income**
S&P/TSX 60 Closing Value: 12,073
TSX 200 Day Moving Ave: 14,084
% Above/Below 200 Day Moving Ave: **14.28% Below**
Levels for change: 100% stocks - **TSX 14,788** and 100% fixed income – **TSX 13,380**

Weekly Quote

“There is only one side of the market and it is not the bull side or the bear side but the RIGHT side.”

Jesse Livermore, famous stock speculator from 100 years ago!

Market Update

"There are times when it pays to be bullish. And there are times where it pays to be bearish. But there are also those times where it makes sense to be humble in your market views and admit that we're in a difficult environment. There's never been certainty in the markets, but today we're at a point in the cycle where I would be long humility, in size." – Ben Carlson, "A Wealth of Common Sense"

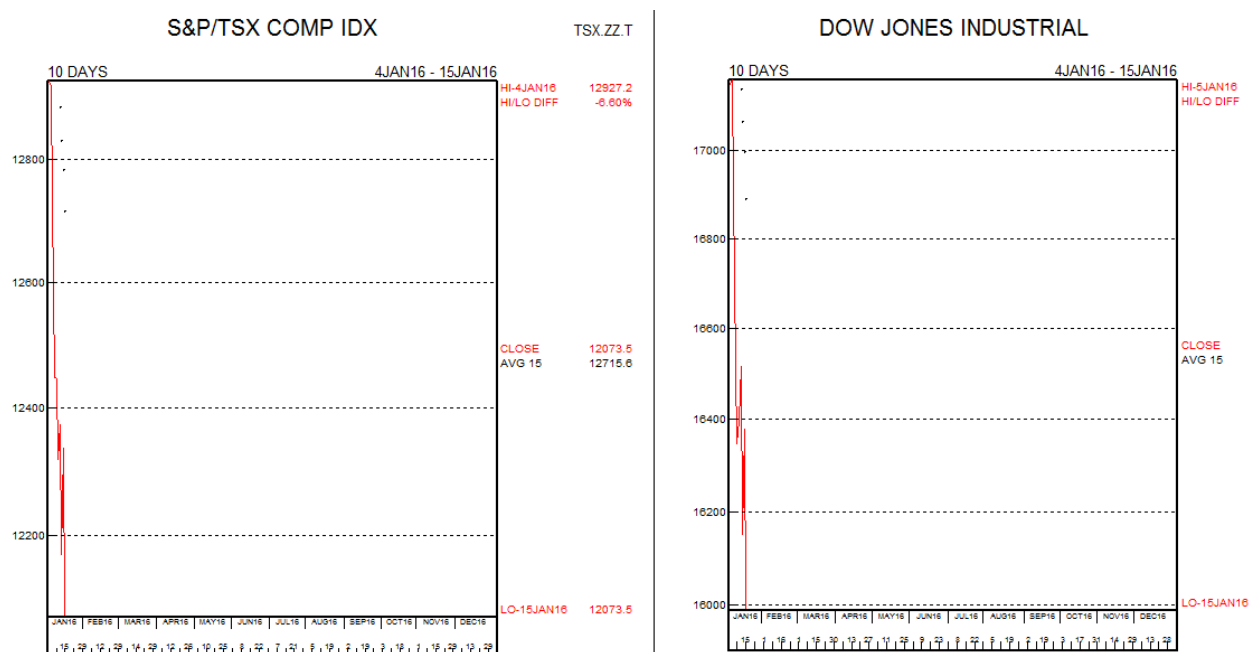
It is my hope that you perceive the following views I am going to write about with the above paragraph in mind!

Stock markets are, quite simply, under assault to start 2016. It has been the worst first two weeks for U.S. stock markets "ever". (Yes, I said ever!). The Chinese stock market has lost 19% in the first two weeks of the year! Bond yields have gone down in light of all this market mayhem. And the Canadian dollar....brutal!

Nobody knows what is going to happen next for sure. If you are listening to pundits on financial T.V. or reading the newspaper then all you are getting is a balanced set of opinions trying to tell both sides of the story.

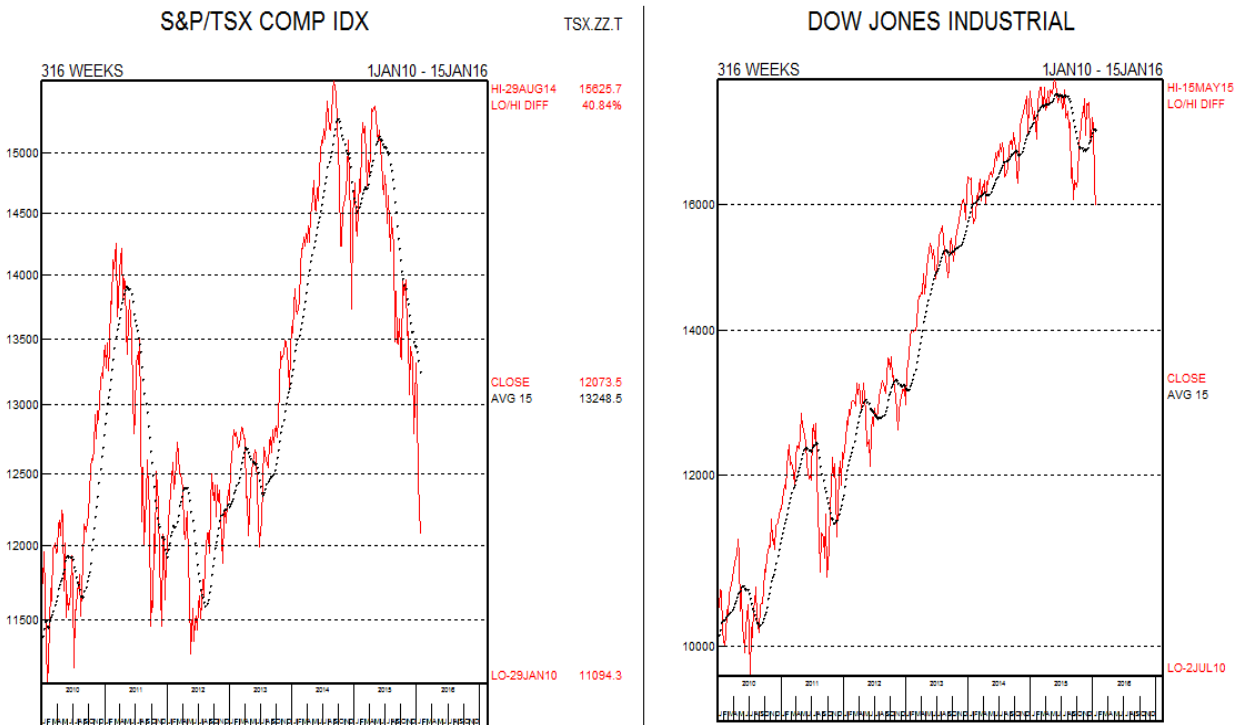
My objective is not to add another "opinion" for you to digest this week. (I stated my opinions in my 2016 forecast a few weeks ago.) **I am going to give you some simple strategy to manage your investment concerns.**

But first, a few charts to show the nature of the 2016 decline. Below is the TSX comp and Dow Industrials for 2016 year to date:



What strikes me the most shocking in these two charts is how attempted rallies are swallowed up so quickly in waves of new “selling”. Traditionally, as stock markets near a bottom, these rallies hold for 3 or more days above previous low levels.

The next chart is for the TSX comp and Dow Industrials but for a 5 year time frame:



If this was 1996 I'd guess there would be more selling to come but all it would take is for the U.S. Fed to “cry uncle” and say that future interest rate increases are off the table to bring about a stock market bottom! (At least temporarily)

Therefore, BULLS and BEARS need to be very careful with their strategy.

I wanted to bring you to this unsettled point of thought because it is exactly where the financial media tends to leave you. The media trots out a couple of pundits that boldly state the bottom is in and then a couple other pundits that say the BEAR market is just getting started. You the viewer or reader become like a deer in the headlights and go numb.

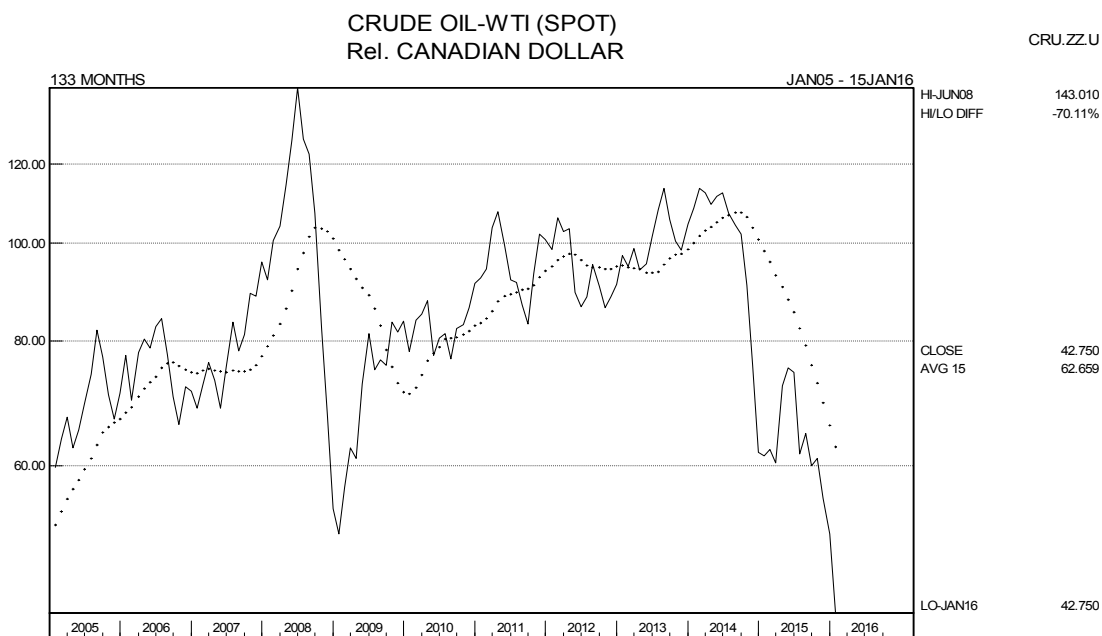
Today, I hope to give you a simple set of tools to get you past this nonsense.

To keep things short and simple let's also look at the U.S. dollar index and Oil. I wrote in my 2016 forecast that the U.S. dollar holds the key to 2016 financial market performance. I believe that even more today...



The U.S. dollar has been on a relentless “tear” to the upside. Please read the next sentence carefully. **The pivot point for the Canadian stock market will be the point when the U.S. dollar starts to decline.** My thesis is this will happen when the U.S. Fed gives up on its threat to lift interest rates four times in 2016 and is forced to consider even another round of Quantitative Easing due to the weakness in the U.S. economy. **Already after only two weeks into the year, the pundits have ratcheted down their expectations for Fed interest rate increases from 4 in 2016 to only one!**

Let’s finally take a look at the chart of crude oil in U.S. dollars.



If we really knew the cause behind this historic move down in prices we would be able to ascertain our investment strategy much easier. If oils' decline is based in "Wall Street speculation" like it was in 2008, then we should be buying quality oil stocks with fat (safe-er) dividends on any real turn in oil prices. But if oils' drop is predicated upon a global recession that is taking hold, then many of the oil companies we know today will not be here 5 years from now.

There is no possible way to know for sure...I wish I could tell you. We will watch for clues to try and handicap the cause of oil's decline.

The rest of this section is going to give you something to do rather than sit there and worry away about a bunch of things that are not in your control.

Step 1 – Make sure the investments you hold right now are not keeping you up at night. If you are nervous, you have too much risk exposure. Everyone loses some money in a BEAR market. If your risk profile is a 10% risk of loss on your entire holdings then make sure that your investments line up with your profile. If you don't know how to do that...get some help from your advisor.

Step 2 – Now that your risk tolerance is properly represented in your portfolio, separate your holdings into two categories. The first category is "**I will never sell these investments**" and the second category is "**If I need to raise more cash I would sell these investments**".

Step 3 – Now look at the investments you would SELL if the financial conditions deteriorated more. Start to put "prices" on where you would SELL these investments. Note your reasons why you would sell them at these prices. Write them down and stick to your strategy.

Step 4 – Start to build a "shopping list" of companies and investments that you have always wanted to hold if they got down to the right price. Put them on a "watch list"...and then watch!

Step 5 – Create a plan to carefully start adding these investments. What prices and conditions would warrant purchases? Are those conditions "fundamental" or "technical" or "both"? What could happen that would make you exit these purchases once made.

What is great about the above plan is it puts all of the power back in your hands. Each step is a step YOU CONTROL! Now your research and reading always reflects back to your plan rather than some endless babble that only leaves you confused and lost!

If you are reading this as one of my clients invested in the TEAM strategy you will be happy to know that those are the founding principles that went into building the TEAM models. **It was not easy to go to 100% cash back in September and stay there!** There have been some big rallies in both stocks and oil since that time that were very

tempting to buy into. **That said, TEAM investors are very comfortable knowing they are sitting in cash WITH A STRATEGY TO BUY BACK INTO CANADIAN STOCKS WHEN THE MARKET FINALLY TURNS AROUND.**

If you are not a client and would like to meet to discuss your portfolio, please feel free to call.

Two Final Thoughts from the Past Week

The phones were very busy the past week. I wrote the majority of this comment late Friday and on Sunday morning.

As I had some time to gather my thoughts I had two “worry closet” items jump out at me in my analysis.

1. **What if the U.S. dollar does not start to decline when the U.S. Fed backs away from lifting interest rates?** It does not make sense that it could happen this way but a lot of things have not made sense the past 7 years. Global financial markets AND the U.S. economy would suffer under this scenario. Stay on watch for this possibility.
2. **What if Donald Trump wins the election?** Financial markets would have to see a great deal of uncertainty under such an outcome...and markets hate uncertainty! Even if Trump keeps gaining in momentum and looks to be running a good chance of winning I believe financial markets would take strong notice.

These are challenging and trying times. Distortions reign across financial markets. **But opportunity always lurks in the weeds of challenging 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.

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