RBC Wealth Management
Dominion Securities

INVESTMENT & WEALTH MANAGEMENT
Today and for the Next Generation

With Nick Foglietta **April 17, 2017**

Time to Pay Attention Again

There are lots of undercurrents swirling around beneath a still relatively tranquil surface to our investment markets.

These tides emanate from financial, geopolitical, and political sources and they all have the potential to change quite rapidly.

This week I take some time to answer a readers' question about "market exhaustion" and review Tax Free Savings Accounts.

I will also be publishing a "client only" report today detailing some thoughts about longer term trend issues the financial markets are grappling with.

"The general outcome of the credit expansion is general impoverishment"

-Ludwig Von Mises

Tactical Equity Income Model Portfolio Record

Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: 50% stocks 50% cash
S&P/TSX 60 Closing Value: 15,536
TSX 200 Day Moving Ave: 15,043

% Above/Below 200 Day Moving Ave: **3.28% Above**

Levels for change: to 100% stocks - **TSX 15,795** and 100% cash at **14,291**

In This Issue

A Client's Question From Last Week

The following is a question from a client with regards to the two reports sent out last week:

Why do you believe the markets are reaching "exhaustion" if the economy is starting to accelerate? How can those two things happen at the same time?

It is a fair question and I am going to attempt an answer in two ways: A short answer and a longer answer!

The short answer is that the general economy and the stock market are not that closely tied together. Jeremy Grantham of GMO fame estimates the directional correlation is around 65% of the time.

Therefore, just because the economy is improving doesn't necessarily mean that stock prices are going to go higher.

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The Long Answer

Now for the longer answer applied specifically to the 2017 situation.

The usual economic inputs that work to impact interest rates and asset prices were long ago abandoned.

Traditionally, asset prices that are predicated upon "*a buyer and a seller acting upon all of the available information available at a given moment in time and agreeing on a specific price*" are a thing of the past.

Larger and larger inflows of newly printed out of thin air money have become the movers of asset prices since the year 2000. The chart to the right showing the aggregate balance sheet growth in the past 17 years, makes this point painfully clear.

The key to that chart is the percentage of new debt as compared to the global GDP.

Think of it this way…

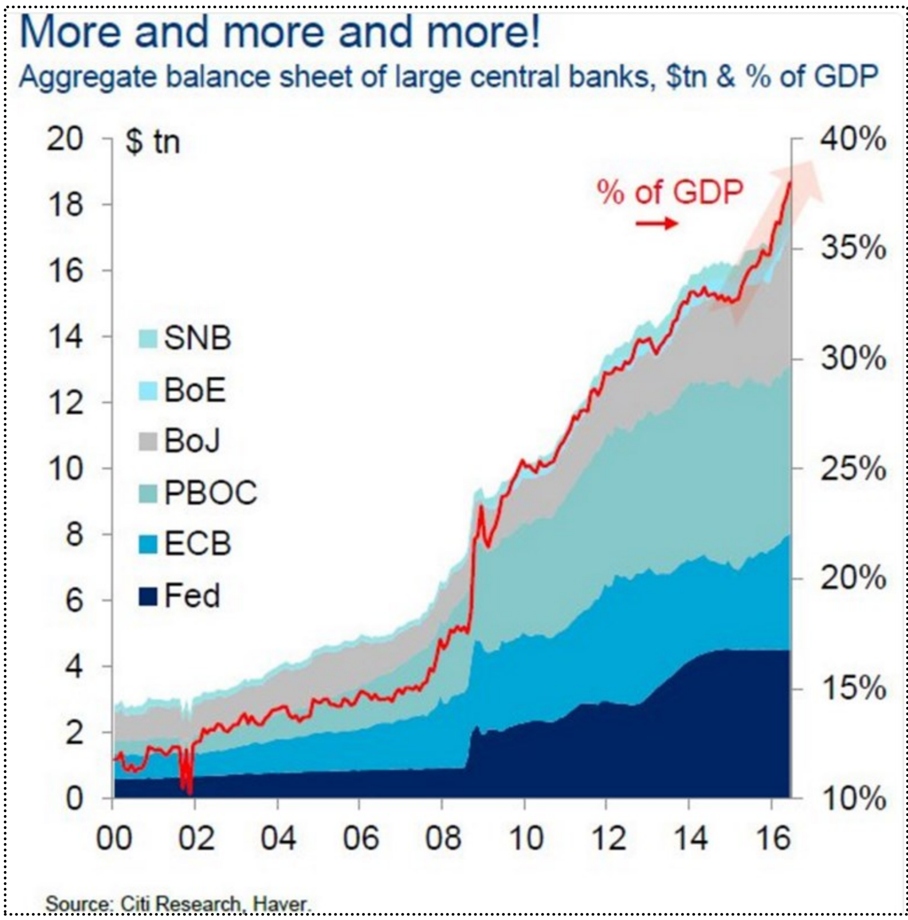
Instead of the traditional scenario of a buyer and seller agreeing upon a price to exchange a stock or bond, the norm for the past 20 years has been a "buyer, seller, and a central bank buyer."

By flooding the market with the central bank buyers, whom by their very definition are price-indiscriminant buyers of assets, the traditional buyer/ seller relationship was lost.

As buyers dominated the asset markets, the prices of everything inflated beyond anything the world has seen in the past.

So back to our question…how is it possible for the economy to improve and for stock/real estate prices to fall at the same time?

The answer would entail the **c**entral bank buying influence to slow down and stop leaving only the traditional buyers and sellers of assets to discover prices.



How many traditional buyers of government bonds want to own negative yields? How high would bond yields end up rising without the central bank influence?

Good questions…

If the answers to the two questions above leads us to significantly higher yields, then asset prices will have to adjust.

Time will tell.

Tax Free Savings Accounts

What started off as a trickle has become a proverbial flood.

Back when TFSA accounts were announced many people thought they were kind of waste of time. But as the years have gone by and the total amount a person can contribute has increased, TFSA accounts are now Canada's preferred way to save.

Let's review some of the reasons why:

1. Canadian residents who have reached the age 18 years old can open a tax free savings account.
2. You can own almost any investment you want to in a TFSA account.
3. The current limit for 2017 is $5,500 per individual. The maximum total contribution for 2017 is $52,000 per individual assuming you have been 18 years or older since the TFSA inception date (2009) and you have been a Canadian resident.
4. This is because of the ability to carry forward unused contributions.
5. You can withdraw money from a TFSA any time. The only restriction is you cannot put the money back in your TFSA account until the next calendar year.
6. A TFSA account can be transferred to another institution if desired.
7. Over contributions are severely taxed (1% per month), so don't do it!
8. TFSA accounts are not able to be joint registered but you can name your beneficiaries like an RRSP account.
9. If you have questions about Tax Free Savings accounts, or want to start a new one, please contact me at 250-729-3234, and we can discuss this idea.

Wealth Management in Nanaimo, B.C., Canada.

Nick has been managing money since 1988.

Contact Us

Give us a call for more information about our services and products

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