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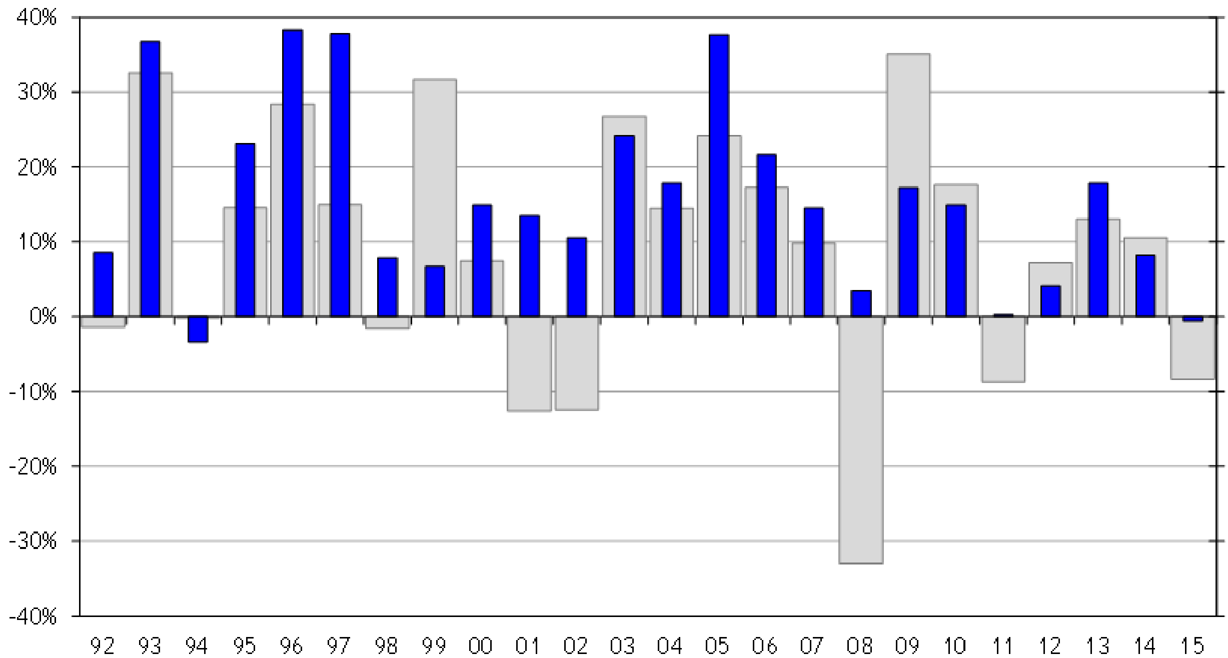
Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: 100% stocks
S&P/TSX 60 Closing Value: 14,800
TSX 200 Day Moving Ave: 13,480
% Above/Below 200 Day Moving Ave: **9.80% Above**

Levels for change: 50% stocks - **TSX 14,155** and 100% cash at – **TSX 12,808**

Weekly Quote

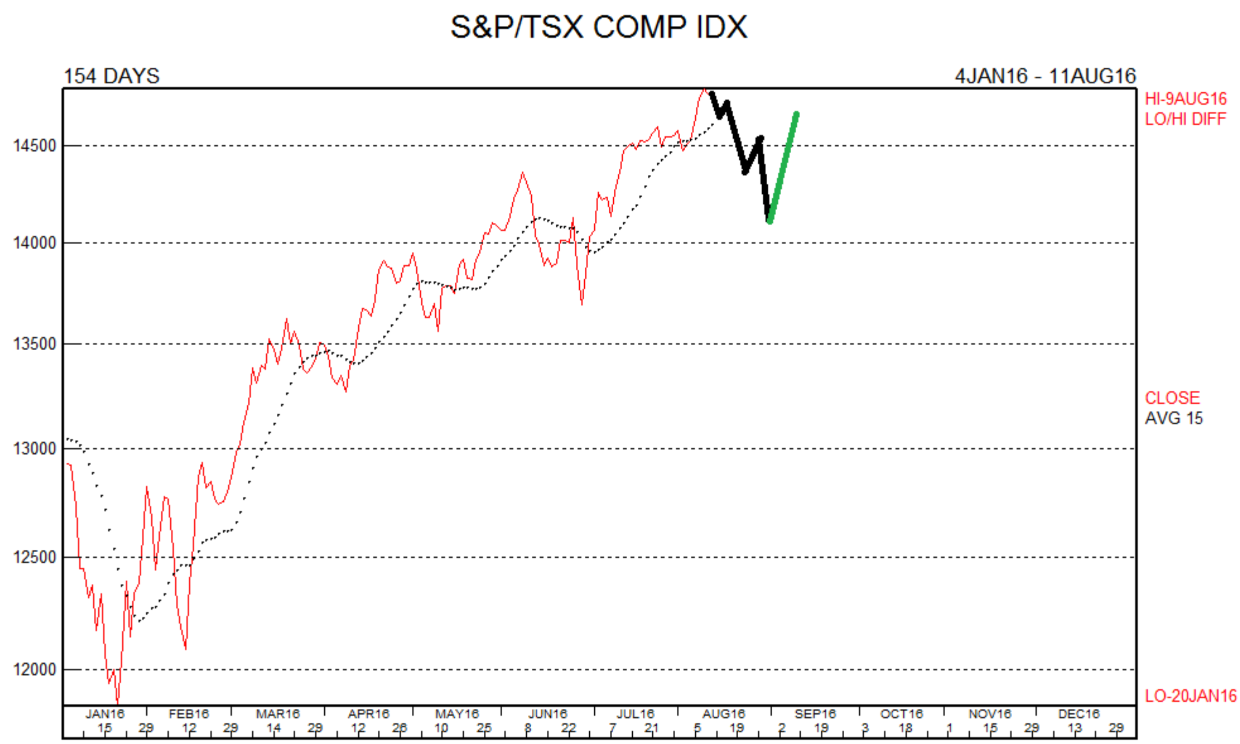
"*I would gladly pay you Tuesday for a hamburger today".*

J. Wellington Wimpy

Short-Term Valuation Critique

During the trading session on Wednesday, August 10th the TSX index climbed 10% above the 200 day moving average when it traded at 14,850. **Historically, whenever the TSX has been more than 10% above its 200 day moving average the short term direction of the index changes and stocks correct.**

This is not inferring that the market changes direction and starts to decline in general but that a multi week decline of 2% - 4% is common.



The reason this correction might take place: **Concern surrounding the September FED meeting and fear that the U.S. FED might raise interest rates.**

Strategy: **The U.S. FED will blow a ton of hot air about interest rates but will not raise them in September. Stocks are looking for a reason to correct…but not to change direction from "higher" to "lower".**

If you have positions in your portfolio that you would like to review and possibly switch this is a good time to sell the positions in question.

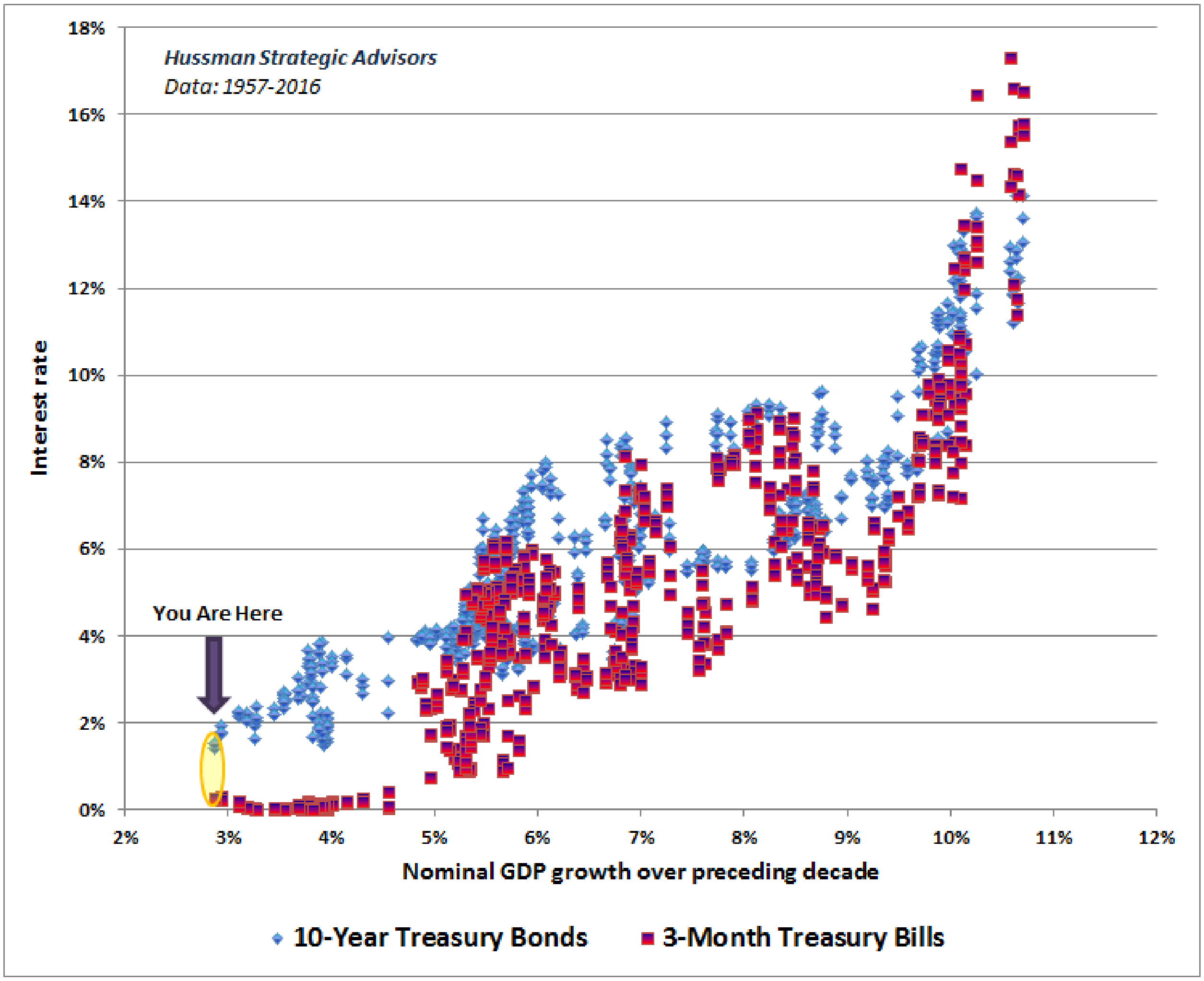
We can look at making a reinvestment of the funds in new positions in the month of September. Feel free to call and discuss this idea if you are interested.

Long-Term Valuation Critique

Let's take a look at a couple of charts to try and answer the question: **How successful has Quantitative Easing been a creating Gross Domestic Product (GDP) growth?**

You may argue that you could not care less as long as stock and real estate prices keep going higher. Fair enough…but remember price is not value!

The following discussion is not a judgement about what is right and wrong…it is a comment about what actually is happening.



The chart above taken from John Hussman's weekly comment is worth more than a casual glance. **The chart is using three data sets: The blue dots represent the 10 year U.S. Treasury yield. The red dots are the 3 month Treasury bill yield. The final data point on the X axis is the GDP rate.** Take some time to see what it is telling you…then read the italics below and see what John thought the data was telling him:

It's clear from the chart above that much of the fluctuation in interest rates over time has been loosely associated with the prior growth rate of nominal GDP, suggesting that interest rates are "determined by the market." The fact is that throughout most of history, before central bankers became nutty as a fruitcake, it was hard to distinguish whether short-term interest rates were determined by the market or by the Fed. That's because, as Stanford economist John Taylor has pointed out ***, the movement of the Federal Funds rate through most of history has been well described by fairly simple policy rules****. But look at the compressed scatter of red dots on the left side of the graph above, when short-term interest rates were pressed straight to zero once 10-year nominal growth fell below 5% annually.* ***That's pure central bank intervention****.*

You'll notice that the range *of scatter has also narrowed for 10-year Treasury yields in the lower-left region of the chart.* ***It's really this* compression *that's unlikely to last****.*

Ok…Mr. Hussman's conclusions are not that difficult to envision by looking at the chart. **Low interests stimulate asset prices nicely, but not so much on the growth side of the equation.**

The data set is plotted since 1957. That is a very representative time period covering high inflations, low inflations and everything in the middle**. The data set begs the question; if zero interest rates promote growth, why are all the plots where the zero interest rates are in place corresponding to the lowest growth in the past 60 years?**

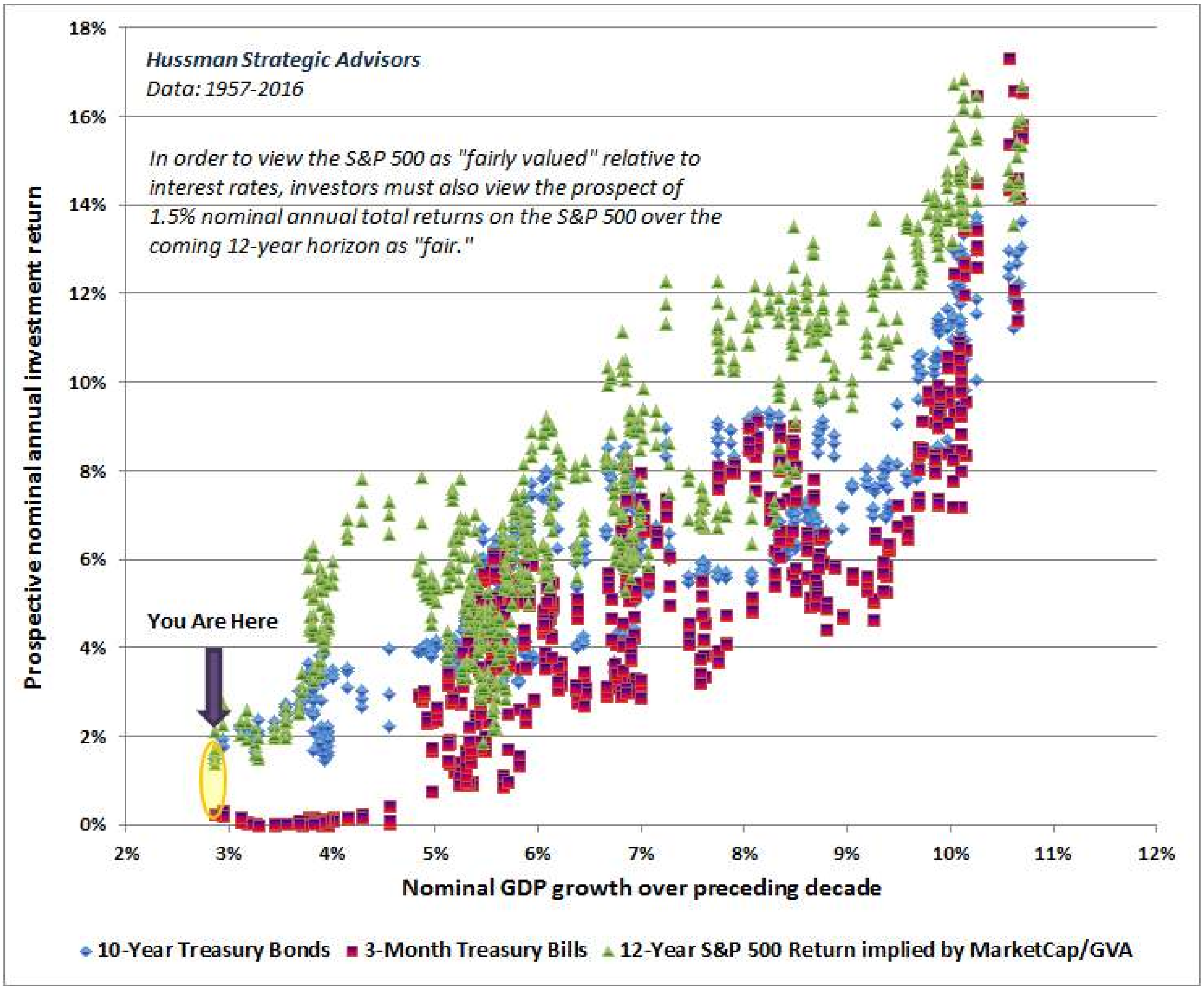
As a secondary question I would add; **after 8 years of zero interest rate policy, why would the FED expect a different outcome for GDP growth?**

There is another fascinating story that comes into play when considering the data above. Since 1987, as the FED has created one financial bubble after another by manipulating monetary policy, the absolute **value** of assets has diminished.

Stated another way, each bubble sees a wider variety of assets get even more expensive!

Remember one more important fact: **The more expensive an asset is, the less ability it has to go higher in price in the long term**. We can predict the level of long term stock market growth from a given date using historical guidelines.

Therefore, let me add one more data set to the first graph. The green dots represent the expected rate of return of the S&P 500 for the coming 12 years.



The last green plot shows the expected rate of return (including dividends) for the S&P 500 for the coming 12 years to be 1.5% per year.

Friends, when I look at the chart above it makes me think about “a squeezed lemon”. There is hardly any juice left in that poor sucker! Mathematically, there simply isn’t much more too “squeeze”.

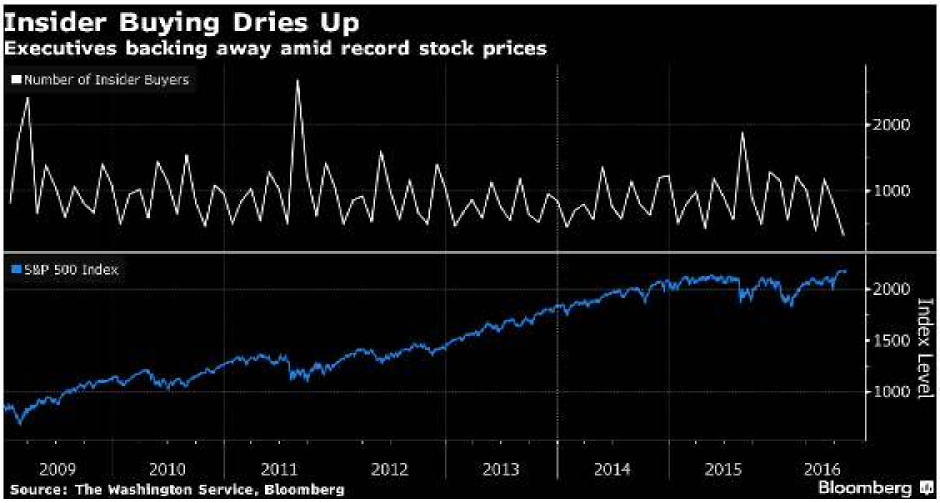
I know this is complicated…but the data is compelling. Feel free to comment.

***Next week my plan is to use the chart above and make a case for a new type of dividend portfolio. The name is going to be the TACTICAL HIGH INCOME PORTFOLIO and my target dividend rate of return for the portfolio is 3.25%.

Until next week….

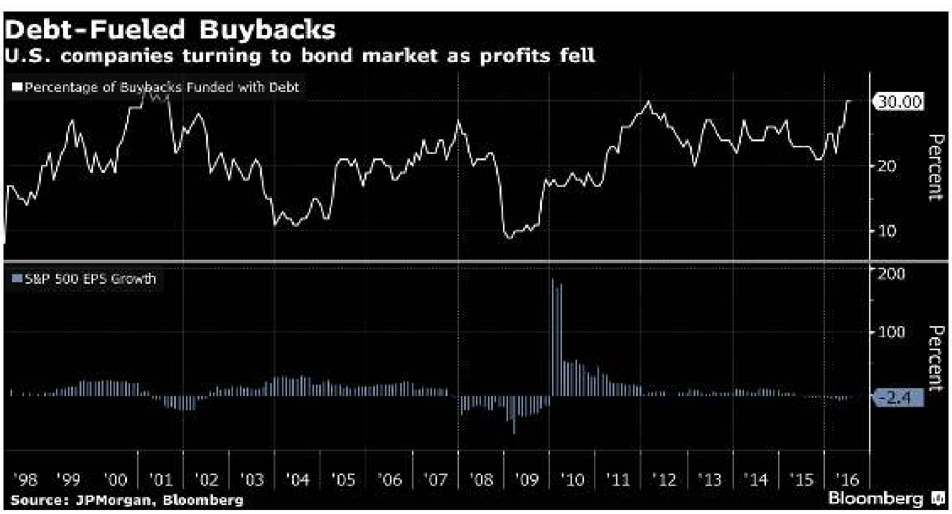
Lowest Number of Insider Buys of U.S. Shares in History

The number of officers and directors of companies purchasing their own stock tumbled 44 percent from a year ago to 316 in July, the lowest monthly total ever, according to data compiled by The Washington Service and Bloomberg that goes back to 1988. With 1,399 executives unloading stock, sellers outnumbered buyers at a rate that was exceeded only two other times.



Remember, the reason we watch insider buying of company shares is based on the logic that ***nobody knows the company better than those who run the company. If they don't see value in buying their own shares for their own personal accounts at these prices…why should you?***

But let me show you another chart that looks rather hypocritical given the chart above. This chart shows the how "corporate buybacks" just kept on rocking along even when the profits of the underlying companies started to stagnate.



Make sure you understand what the two charts are saying: **Corporate insiders are selling their own companies shares at the highest sell-to-buy ratio in history and, at the same time, borrowing money to buy back the same company shares via the corporation.**

The financial world is full of these bizarre situations today. I'm not sure I would take any action in my portfolio based on the above knowledge…but it is something to be aware of.

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.