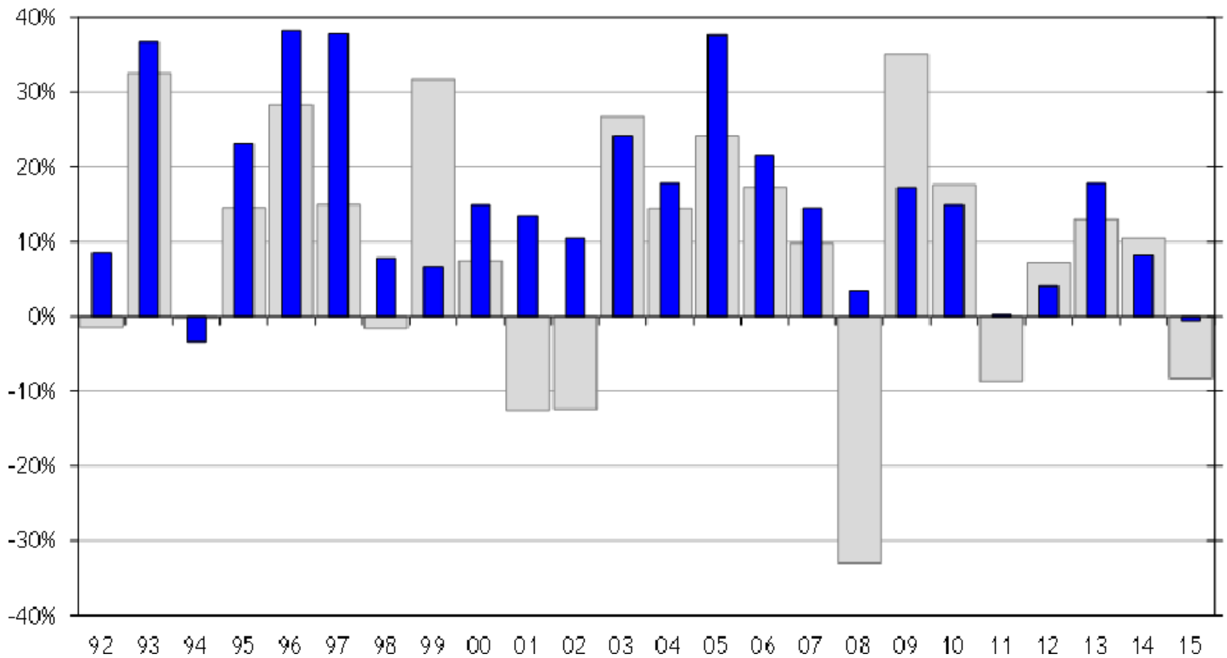
February 23rd, 2017

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: 100% stocks
S&P/TSX 60 Closing Value: 15,814
TSX 200 Day Moving Ave: 14,760
% Above/Below 200 Day Moving Ave: **7.71% Above**

Levels for change: 50% stocks - **TSX 15,498** and 100% cash at – **TSX 14,022**

Weekly Quote

Notice the change levels above for the TSX. The first stop loss in now at nearly 15,500 and the cash out position is now over 14,000. TEAM is well positioned to deal with a stock bubble!

A Little bit of Housekeeping

I am away from the office Friday, Feb 24th and returning on Wednesday, March 1st at an RBC training session. All of the TEAM models are presently 100% exposed to the stock market and NONE can give a sell signal in this period. The earliest SELL signal would be on March 1st.

It is also my pleasure to announce that Megan Christensen will be joining our team as of March 1st. Megan has an amazing background in both banking and marketing/journalism. (Maybe the quality of my writing will improve ☺)

This is step one in our team build-out that transpire during the year. I will fill you in on more as the dates get closer over the next few months.

Finally, some of you have been calling and asking about taking your exposure higher to the U.S. stock markets to try and gain in this final "bubble" phase. I don't have a problem with that but please read the section below to add some perspective to the manner as to how you will add exposure.

Short Term Bubble Climax…But Doubtfully the End of the Bubble

The present move in the U.S. stock market has reached EVERY short-term indicator level that I watch. **This means there is a much higher chance of a 1% - 3% correction in coming days than another 1% - 3% move higher.**

The chart above shows the last 5 years for the S&P500 and the present reading of the RSI (Relative Strength Index) is the highest in the time frame. **A pull back to the 2325 level would be normal…and even healthy.**

For those of you keeping score at home, you might be noticing that the number of companies actually participating in this “melt up” in stock prices is not broadening. There are fewer and fewer companies actually continuing to push to new highs as the stock market indexes continue to make new highs.

This behavior is consistent with a “bubble” in prices. This is also why I recommend sticking with index investments rather than trying to pick stocks.

For those hoping to add positions in the stock markets, my goal would be to look at those additional purchases around the 2325 level.

(Many clients have orders pending already down at this level.)

The path of least resistance is still higher….

Exchange Traded Funds (ETF) and their Impact on the Markets

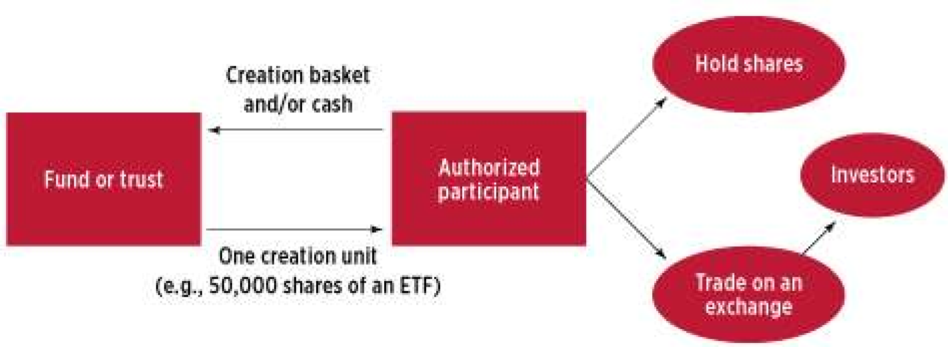
Trillions of dollars have moved from active investment managers to ETFs. Even active managers such as myself favour the use of ETFs to garner exposure to markets rather than individual stocks. Why?

1. Broad exposure to a market or sector in a single position.
2. Ease of buying and selling.
3. Cheap management fees.
4. Non-emotional investments. (You don’t get attached to ETFs like companies.)

So what could go wrong with these investments?

The truth is there is not much risk in the ETF products themselves. As long as they own the underlying securities, rather than derivative based “promises”, ETF products are awesome!

How ETFs might impact markets in the future is not quite as happy of story.



The way ETFs trade is interesting. (Chart above) When an order is entered to buy an ETF the first way of “filling” the order is to buy existing ETFs available on the market. Just like a normal stock transaction.

But if there is an extremely large order…or all of the orders keep coming in on the same side of the market…new ETF units are created out of thin air by the ***authorized market participant*** and the underlying shares are purchased in the open markets at a later time to “fund” the new ETF units created.

This has been one of the reasons stock markets have been so “bullet-proof” the past year or so. Think about it…if you are buying shares in a company you consider whether the shares are cheap or expensive. But when buying ETFs you just put the order on to buy…there is far less connection to the value of the underlying shares. Buying has greatly out-weighed selling since the “Trump rally” began…hence a strong bid to stocks and lots of new ETF units being created.

But the same process works on the downside. If everyone tries to sell their ETFs at the same time there is an indiscriminant selling philosophy in place. The idea is that people are not selling companies…they are selling “the market.” If there are too many sell orders for the ETFs to be matched in the markets, then ETF units must be “redeemed”…and to redeem units the underlying stocks must be sold.

Potentially this could lead to a situation where people are selling both ETFs and stocks at the same time. The ETF authorized market participants could find themselves in a tough situation when it comes to finding buyers of the underlying shares in a panic.

To be clear, it is not the ETFs would fare any better or worse than the underlying shares in such a panic…the ETFs could easily exacerbate the panic though!

There has not been a lot written about this underbelly of ETFs. Maybe because it really doesn’t matter while the markets are moving higher.

That said, I believe the trading realities of ETFs are one more reason why investors need an excellent downside protection strategy.

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