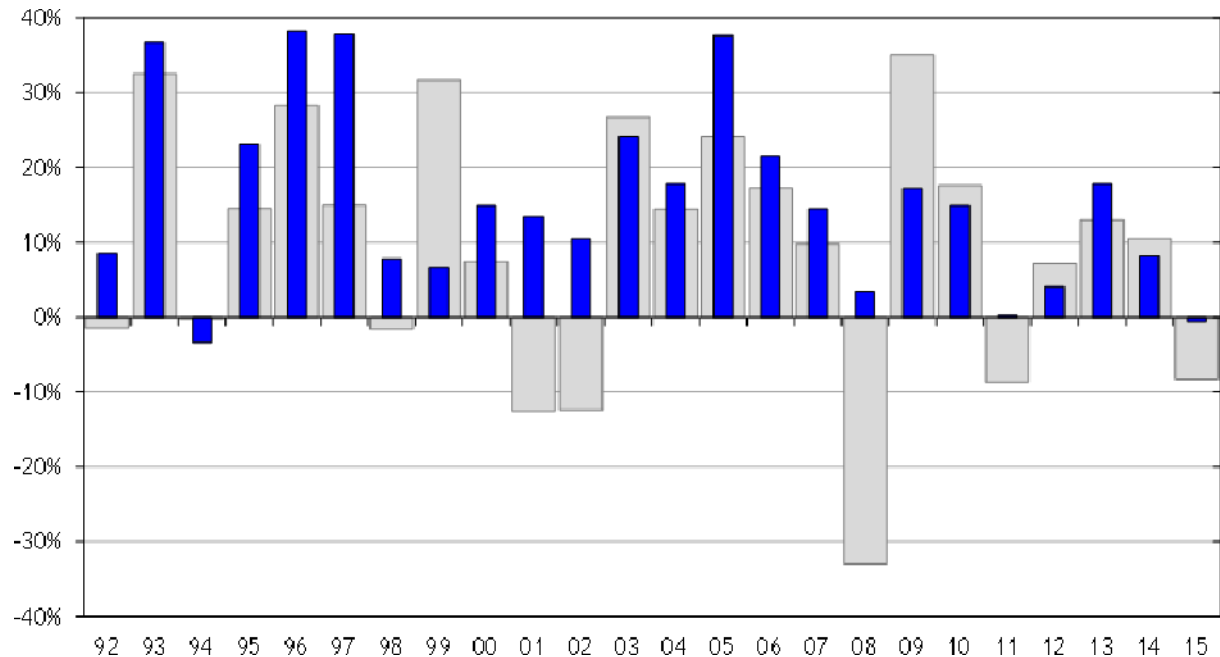


February 6<sup>th</sup>, 2017

## ***"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: 15,475  
TSX 200 Day Moving Ave: 14,643  
% Above/Below 200 Day Moving Ave: **5.68% Above**

Levels for change: 50% stocks - **TSX 15,375** and 100% cash at – **TSX 13,911**

### Weekly Quote

*"Happiness is wanting what you have...and not wanting what you don't have."*

- Shakyamuni Buddha, 500 B.C.

Nick comment – Also known as *"Contentment"*

## Opening Thoughts

How fast things change!

A sure win for the Atlanta Falcons in Super Bowl 51 required three conditions to assure defeat could be snatched from the jaws of victory:

1. Atlanta stopped aggressively pushing play against a patient opponent.
2. Some monumentally stupid strategic choices on the part of the Atlanta coaching staff.
3. A “never-say-die” confidence from the greatest quarterback to ever play the game!

In many ways, President Donald Trump employed a similar “never-say-die” work ethic and conviction to win the 2016 election.

Isn't it amazing how things that seem so sure to happen...under the right conditions...don't happen? Really!

As for financial markets, I want to re-iterate the position I took in last weeks' comment. **There is a good chance U.S. financial markets are in the “blow-off to the upside” final phase of the Bull market that began in 2011/2012 (green box) and will end somewhere in the red box.**



The TEAM models are in a perfect position to deal with a final strong move by U.S. stocks to the upside. For those who own TEAM positions, I am monitoring this situation daily in both the U.S. and Canada...I will communicate any change in positioning with you as soon as it happens.

To make this communication even more efficient, I have created a new Client Only **TEAM Distribution List** for all of you with an investment in the TEAM models. (Either US or Canada) If you receive an email that is titled “TEAM Model Asset Mix Change” from me; that email will be the first communication that something is happening.

This is going to get very interesting to watch!

### Three Frequently Asked Questions from the CRM2 Statements

The amount of contact from clients this past week about their CRM2 statements was less than I expected. Most of the feedback was centered on clarification of information. But I did encounter three questions more frequently than any others.

If these three questions were on the minds of many of you who contacted me, it would not hurt to write the answers out in this weekly comment:

**Question 1: What exactly does the GIC cost refer to? I didn't think GICs cost anything for me to buy?**

For the record, I was really disappointed with how the CRM2 statements showed this number. Let me use an example to show why.

On a given day, each of the RBC approved GIC providing financial institutions send out their 1 to 5 year GIC rates. These are the same rates you would see if you walked into the branch of the issuing institution, or if you looked on your discount brokerage account offering sheet, or called your full service wealth manager. There is no difference in the interest rates posted for the day regardless where you shop!

To be clear, on February 03, 2017, if you shopped a 2 year GIC issued by *Home Trust* from your discount broker, full service broker, or Home Trust directly, the interest rate offered would be 1.67% at all three institutions.

Let me also explain how the compensation for placing that order is calculated.

If you decided to buy the above GIC with \$20,000 you would receive 1.67% per year for the next two years...with no costs to you. For placing the money with Home Trust; the discount broker, full service advisor, or Home Trust Company would receive a remuneration of \$100.00. (The amount paid by the receiving institution is calculated by multiplying 0.0025 by the number of years in length for the GIC by the face value of the GIC bought.)

$0.0025 \times 2 \text{ years} \times \$20,000 \text{ face value} = \$100$  paid to company holding the GIC in segregated safekeeping on your behalf.

What I find frustrating with this cost being shown on the CRM2 statement is that it really doesn't qualify as a cost! Let's put it this way...if you bought the GIC from your full service advisor and only got 1.50% when you could get 1.67% on your discount brokerage account or Home Trust directly...then I would argue a mark-up or cost is being charged by the full service advisor. But if the interest rate is the same no matter where the GIC is bought...how is that really a cost?

Anyway, that is my pet peeve. Hopefully that helps you understand what the GIC remuneration line means on your CRM2 statement.

**Question 2: Could you please explain to me how the mutual fund costs shown on my statement differ from what I actually paid?**

If you own a mutual fund with a management expense ratio (MER) of 2.2% you are not seeing that total cost to you on your CRM2 report.

The CRM2 report only disclosed the “*trailing commission*” (1.0%) that is paid out to the advisors’ firm, but the remaining fee (1.2%) taken by the fund managers themselves was NOT shown.

Again, an example helps clarify the situation.

You own \$200,000 worth of mutual funds. \$10,000 is in “money market”, \$150,000 is in “balanced fund”, and \$40,000 is in “US growth”. The total cost show to you on your CRM2 statement would look something like \$1900.00. (That figure is arrived at by showing nothing on the money market position and showing a 1.0% trailing commission paid on both the balanced fund and the US equity fund.)

But the actual amount paid by the owner of these funds was more like \$4325.00.

Let me break the example down for better understanding:

<u>Mutual Fund</u>	<u>Trailing Commission Paid to Advisor Firm (% and \$)</u>	<u>Total Cost Charged by the Fund (% and \$)</u>
\$10K Money Mkt	0% and \$0.00	0.25% and \$25.00
\$150K Balanced fund	1.0% and \$1500.00	2.20% and \$3300.00
\$40K US Growth	1.0% and \$400.00	2.5% and \$1000.00
Total on CRM2 = <b>\$1900</b>		Actual Total = <b>\$4325.00</b>

My guess is this problem will be rectified...hopefully by next year. As I have always said, please feel free to contact me and come in and get a clarification on all of your CRM2 statements if you are not sure.

**Question 3: What are the “average fees” people pay on their portfolios?**

Tough question to answer in a generic way. The costs to run your portfolio vary with the types of investments you choose, the activity in your accounts, the size of your accounts, and many other variables.

Let me offer some VERY rough guidelines and then, if you still have some questions, please call and discuss them with me.

The lowest annual costs I have seen on portfolios higher than \$25,000,000 would be 0.20%. I have seen some more aggressive portfolios that hold “exchange traded funds” (ETFs), managed accounts, and hedge funds with costs in the 3.70% - 4.20% range.

But for normal costs paid by average retail investors, I think, the following summary is satisfactory.

If your portfolio is 50% fixed income (GIC's, Bonds, Preferred Shares, Cash) and 50% invested in equity (stocks, mutual funds, TEAM notes, etc,) an all-in cost between .90% to 1.85% is typical. If you have lots of GICs...this cost is going to be nearer the low end of this range. If you have more than \$500,000 invested this cost is going to be in the middle of the range. For over \$1,000,000 your cost should be nearer the 1.0% level.

Like I said, this is a rough guideline. There are some new ETF portfolio variations of portfolios that can drop these costs well under the 1.0% level to as low as 0.60% for sums over \$1,000,000. You should really call so we can look at your situation specifically.

Finally, **let's make sure you are calculating your all-in cost number correctly.**

Unfortunately, the CRM2 statements came out individually for every account that you hold. In other words, if you have an RRSP, RRIF, Tax free Savings Account, personal account and/or corporate account, you got a statement for each of those accounts individually. If you are married, you got twice that many again!

To get the correct percentage cost number do the following calculation:

1. Total the market value of all your investment accounts held with RBCDS.
2. Then total all of the fees shown on your CRM2 statements.
3. Subtract the GIC costs shown.
4. Divide the total costs by the total value invested and multiply by 100 to get a percentage.

Example:

<u>Value</u>	<u>Cost</u>
RRSP = \$195,000	\$2200.00
TFSA = \$58,000	\$580.00
Non-registered = \$455,000	\$4740.00

Total value held at RBCDS = **\$708,000**    Total Cost = **\$7520**

**Average fee for total portfolio = 1.06%**

Again, hopefully this helps you with your understanding of your statements. The goal of the CRM2 initiative is greater transparency of costs associated with investing in Canada. CRM2 is an excellent first step.

A number of clients have come in to see me with all of their statements and we have been able to save thousands of dollars by streamlining their holdings and using cheaper investment vehicles.

Let me put the invitation out there again for you to feel free to come and see me and discuss your statements.

### *Canada's Prospects Amidst Changing U.S. Trade Policy*

I continue to believe that, at the margin, Trump is net-BULLISH for the U.S. and net-BEARISH for Canada.

Krishen Rangasamy and Warren Lovely from National Bank Economics and Analysis make the following bullet points on the subject:

- The arrival of new leadership in Washington brings both opportunities and threats to Canada. While the energy sector is set to benefit from U.S. President Trump's executive order on Keystone XL, the outlook for non-energy Canadian exporters is less clear amidst calls by the new administration to re-negotiate the North American Free Trade Agreement or even scrap the latter in favour of a separate bilateral agreement.
- Should policymakers fail to reach an agreement to exempt Canada from upcoming U.S. trade barriers, Canada's exports and hence economic growth would take a significant hit. For instance, if the U.S. imposes a 10% border adjustment tax on imports and nothing else changes, Canada's total goods exports to the U.S. would drop roughly 9% based on U.S. import price elasticities, enough to chop about 1.5% from Canada's GDP growth. Under that scenario, Ontario and New Brunswick would be the worst hit among provinces given their relatively high exposures to the U.S.
- U.S. protectionism could do more than just derail Canada's plan for export resurgence. It would keep the country's economic growth model skewed to housing/consumer spending to an unhealthy extent.
- Whether or not Canada-U.S. trade relations suffer, expect Ottawa to keep working hard in establishing new trade relationships and reinforce existing ones. An enhancement in interprovincial trade is a laudable objective. Policymakers will also have to find ways to make Canada more competitive not just via a weakening Canadian dollar but through more sustainable methods including measures to enhance investment and boost productivity.

Nick comment: The energy sector is performing poorly given the level that crude oil is holding. I'm not totally convinced the first bullet point of the editorial above is working out the way the analysts thought it would.

Energy is a sector worth keeping a close eye on...

***Wealth Management in Nanaimo, B.C., Canada. He has been managing money since 1988.***

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