RBC Wealth Management
Dominion Securities

INVESTMENT & WEALTH MANAGEMENT
Today and for the Next Generation

With Nick Foglietta **July 11, 2017**

MISSION ACCOMPLISHED

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"Men make history and not the other way around. In periods where there is no leadership, society stands still. Progress occurs when courageous skillful leaders seize the opportunity to change things for the better."

-Harry S. Truman

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: 15,027
TSX 200 Day Moving Ave: 15,289

% Above/Below 200 Day Moving Average: **- 1.71%**

Levels for change: to 100% stocks - **TSX 16,053** and 100% cash at **14,524**

In This Issue

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The infamous words of George W. Bush standing on the deck of the USS Abraham Lincoln declaring the end of the major combat in Iraq on May 1st, 2003. Of course in hindsight, the better slogan would have been "mission just beginning."

A similar story is being spun by the central banks around the world. "Mission accomplished," the financial world is a safe place again for all to do business and invest. The central banks are telling the world they can begin to raise interest rates.

There are two points to this narrative I find myself questioning:

1) It took ten years of central bank intervention for these people to declare "mission accomplished." If you started to intervene 10 years ago in something and kept doing the same thing for all 10 years, would you not conclude that something other than your intervention is making a difference when change took so long to occur?
2) The solution used by the central banks to solve a problem of too much debt was to firehose the world with copious amounts of more debt. Why would that solve a debt problem?

So here the world sits. Artificially low interest rates and easy credit have spurred people around the world to buy things they don't need with money they don't have to impress people they don't even care about. Moral hazard and complacency abound…the people with wealth hope it never changes.

Many people ask, why can't the entire process just go on forever?

I'm afraid I can't answer that question, but I can say that if the central banks around the world decide to start sucking liquidity out of the financial system that they themselves have juiced up with liquidity, something will start to matter at some point in the future.

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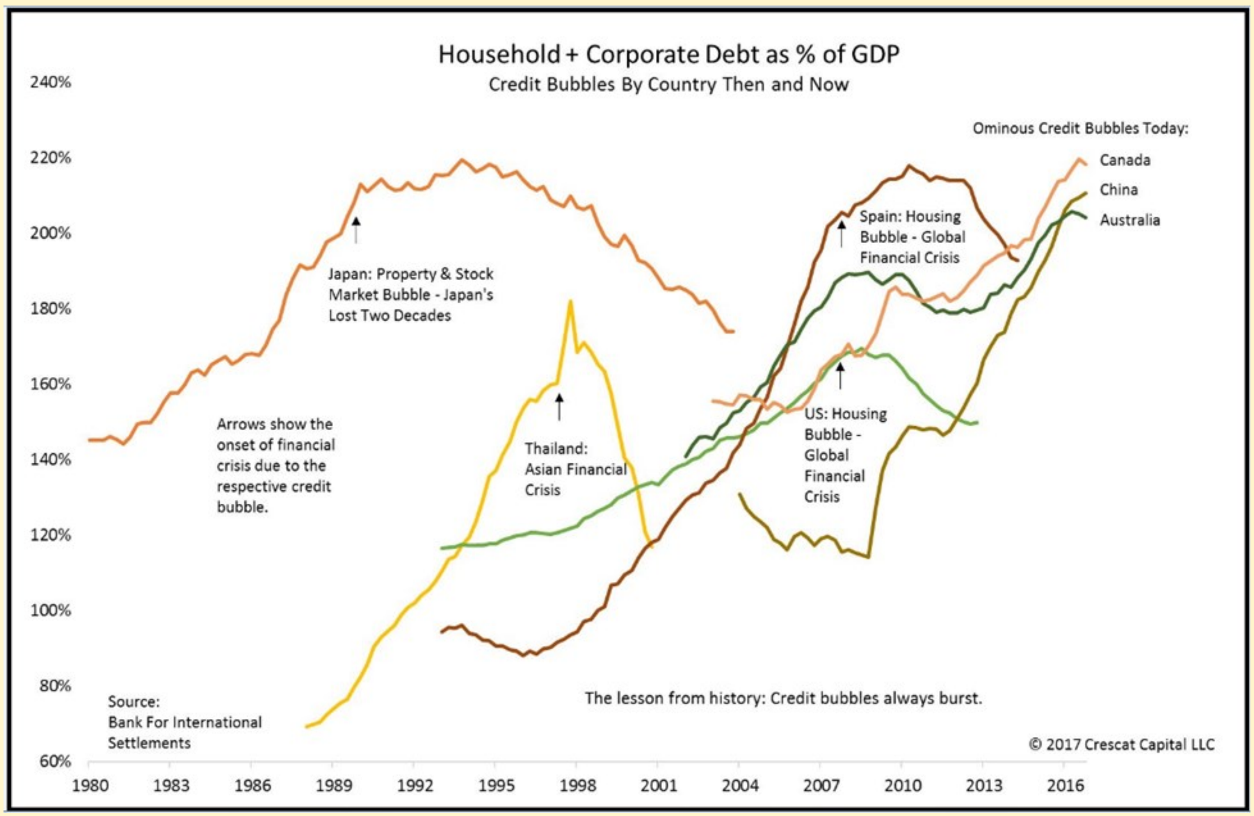
The real question is…**will the central banks actually follow through with a credit tightening cycle in the face of the oceans of debt floating around the world?**

Investors will have to wait to find out, but holding US equities and some precious metals (bullion) insurance with the intention of ramping up your exposure IF THE PRICE ACTIONS JUSTIFY larger purchases certainly makes sense to me at this stage.

If central banks back down from these interest rate increases, I believe another strong up-leg in stocks and gold will occur.

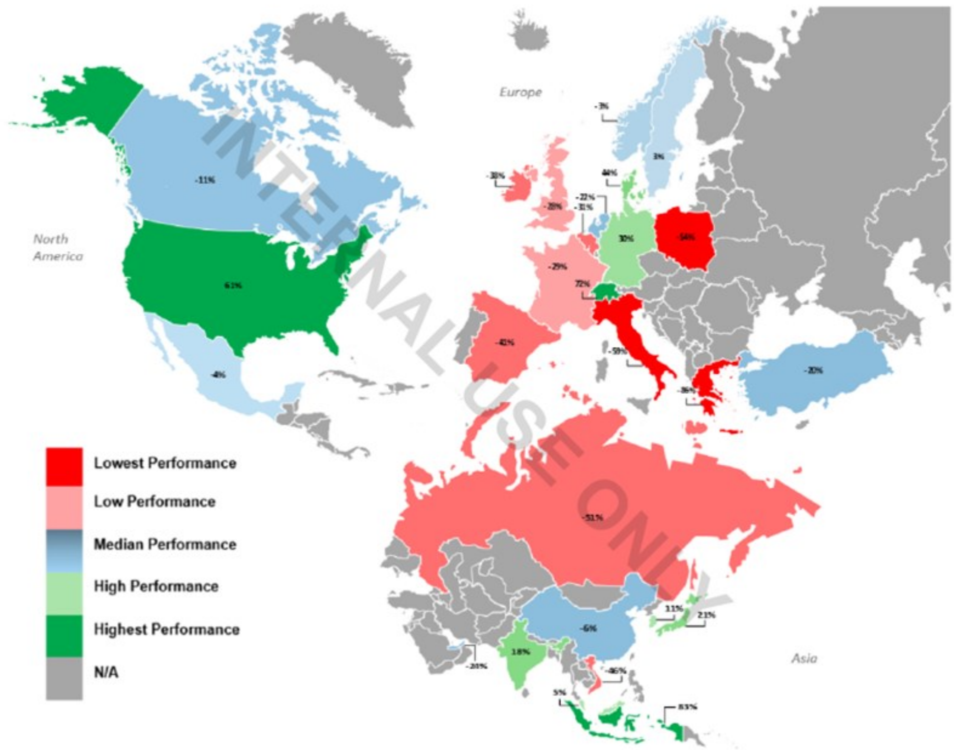
The balance of this report will show a series of charts and a few comments about each chart. ■



The "Household + Corporate Debt as a Percentage of GDP" ratio has been as close to an Iron Law as any in the past 120 years. The chart in today's publication only shows from 1980. It is pretty self-explanatory. The ratio of debt to GDP in Canada at present is near the exhaustion level of EVERY other historical debt/GDP bubble!

My only comment is that it would have been more prudent to start raising interest rates earlier when the bubble was growing, not when it appears to have reached maximum density!

Ten-year trailing performance (USD)

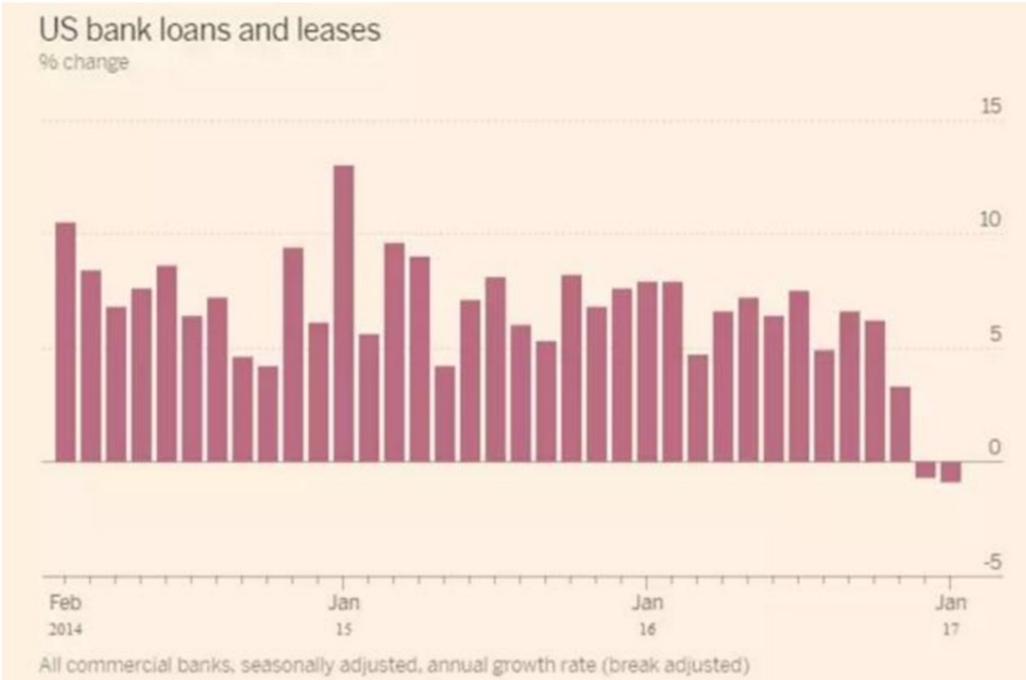


Note: Through 6/30/17
Source: Bloomberg; Canada: SPTSX Index, US: SPX Index, Mexico: MEXBOL Index, Germany: DAX Index, UK: UKX Index, France: CAC Index, Italy: FTSEMIB Index, Spain: IBEX Index, Poland: WIG20 Index, Turkey: XU100 Index, Greece: ASE Index, Denmark: KAX Index, Switzerland: SPI Index, Norway: OSEBX Index, Netherlands: AEX Index, Belgium: BEL20 Index, Sweden: OMX Index, Ireland: ISEQ Index, Japan: NKY Index, China: SHCOMP Index, Korea: KOSPI Index, Indonesia: JCI Index, India: MXIN Index, UAE: MXAE Index, Russia: INDEXCF Index, Malaysia: FBMKLCI Index, Vietnam: VNINDEX; Note: price return only.

The chart above showing the major economic economies makes for an interesting visual presentation. What jumped out at me was how only a couple of nations really benefitted from all of the insane policy choices by the central banks looking back 10 years.

Historians will ask, “Was it worth it?”

…but that is not a question for today.

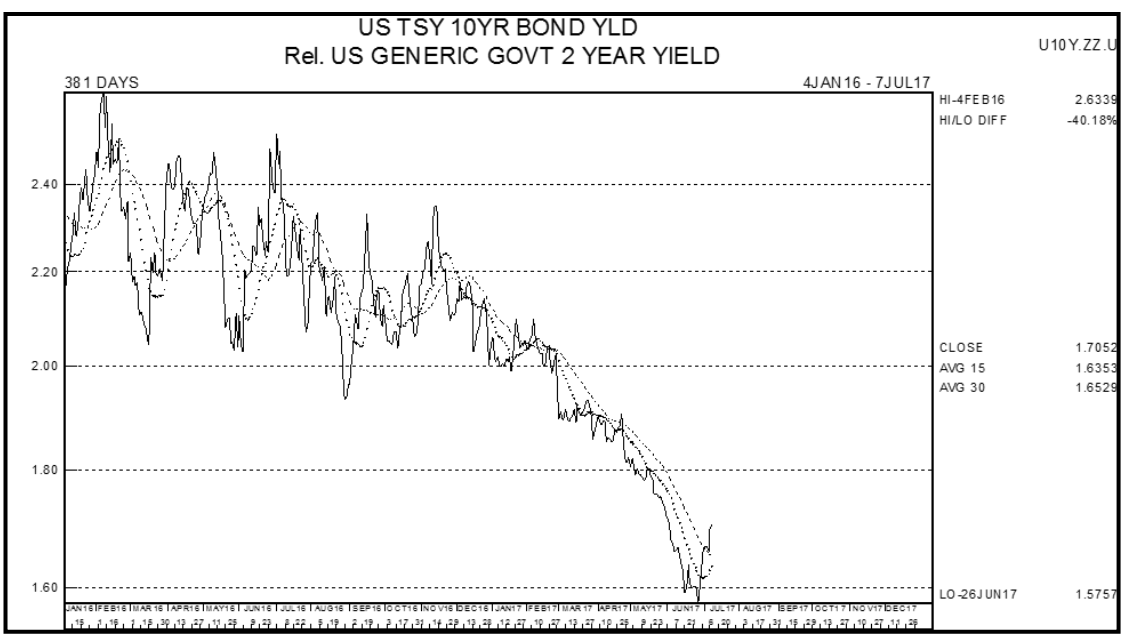


A few people have been emailing back with the question: “When is any of this ever going to matter?”

My honest answer has been nobody knows.

But the chart above showing shrinking US loans and leases has always been an excellent indicator of economic slowing. It is certainly worth noting that 2016 loan growth ended on a weak note.

To balance all of the above information, one chart that had significant improvement last week was the steepness of the yield curve in the US. The 10yr US Treasury bond steepened by 0.14% last week.



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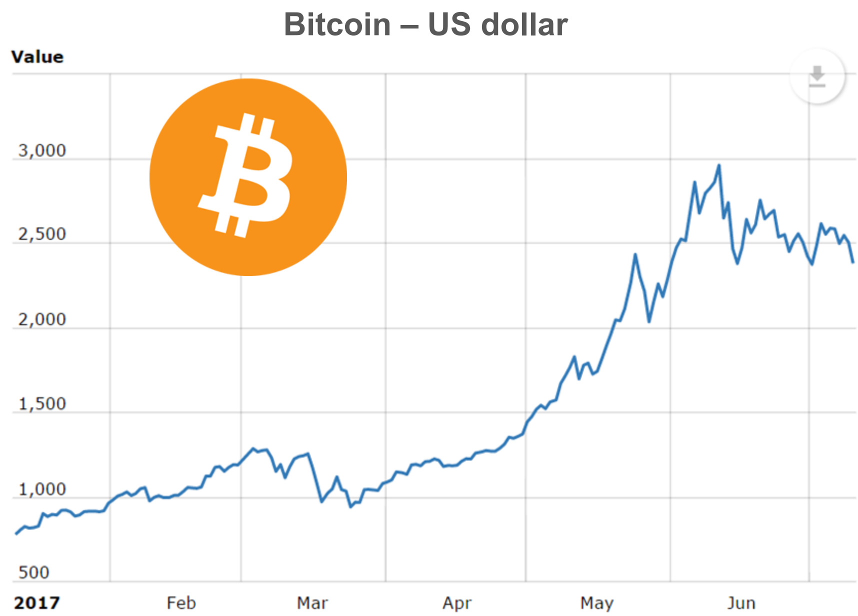

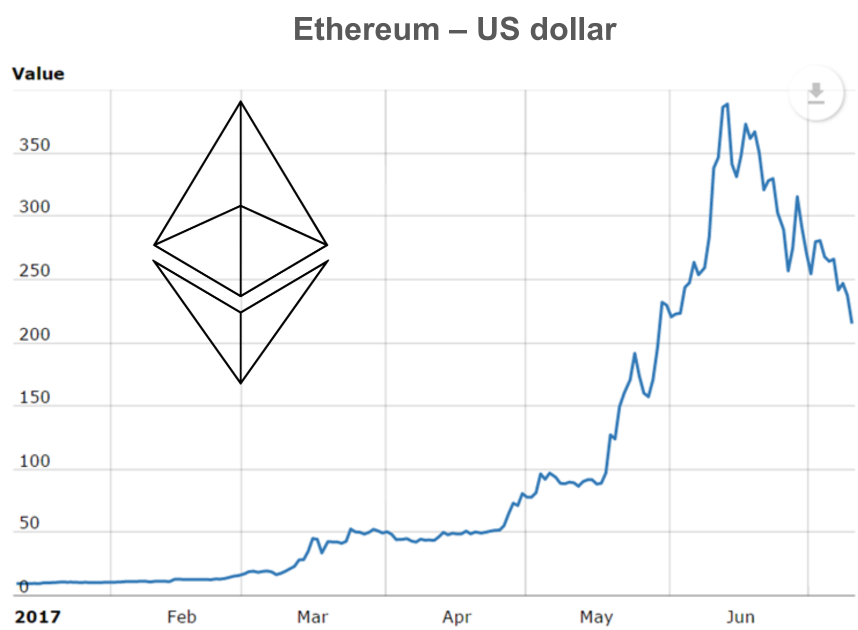

The cryptocurrencies have fallen off the front page news the last few weeks and a look at the above charts of the two largest cryptocurrencies (Bitcoin and Ethereum) shows why people have not been talking so much about this sector of investment.

This is for information only; I have no buy or sell opinion for cryptocurrencies.

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

RBC Dominion Securities
#101 - 5050 Uplands Dr.
Nanaimo, BC
V9T 6N1

P. (250) 729-3234

F. (250) 729-3272

nick.foglietta@rbc.com

Visit us on the web at
www.nickfoglietta.com