



# RBC Wealth Management Dominion Securities

**INVESTMENT & WEALTH MANAGEMENT**

*Today and for the Next Generation*

**With Nick Foglietta**

**June 19, 2017**

## Yield curve continues to flatten

In previous comments I have referenced the US yield curve and how the two- and ten-year bond are seeing their yields converge. This convergence is referred to as “yield curve flattening.”

The reason I continue to bring it to your attention is that a flattening yield curve is seen as a sign of economic weakness to come.

This information is included only as another potential sign of financial market “exhaustion”. It is not an imminent indicator so please view it as input only.

Take a look at the chart on the following page to see this flattening for yourself.

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**“The meaning  
of life is to find  
your gift, the  
purpose of life  
is to give it  
away.”**

-Joy J. Golliver,

Founder of  
Touched by Joy,  
support for  
caregivers network

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### **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: 15,193  
TSX 200 Day Moving Ave: 15,247

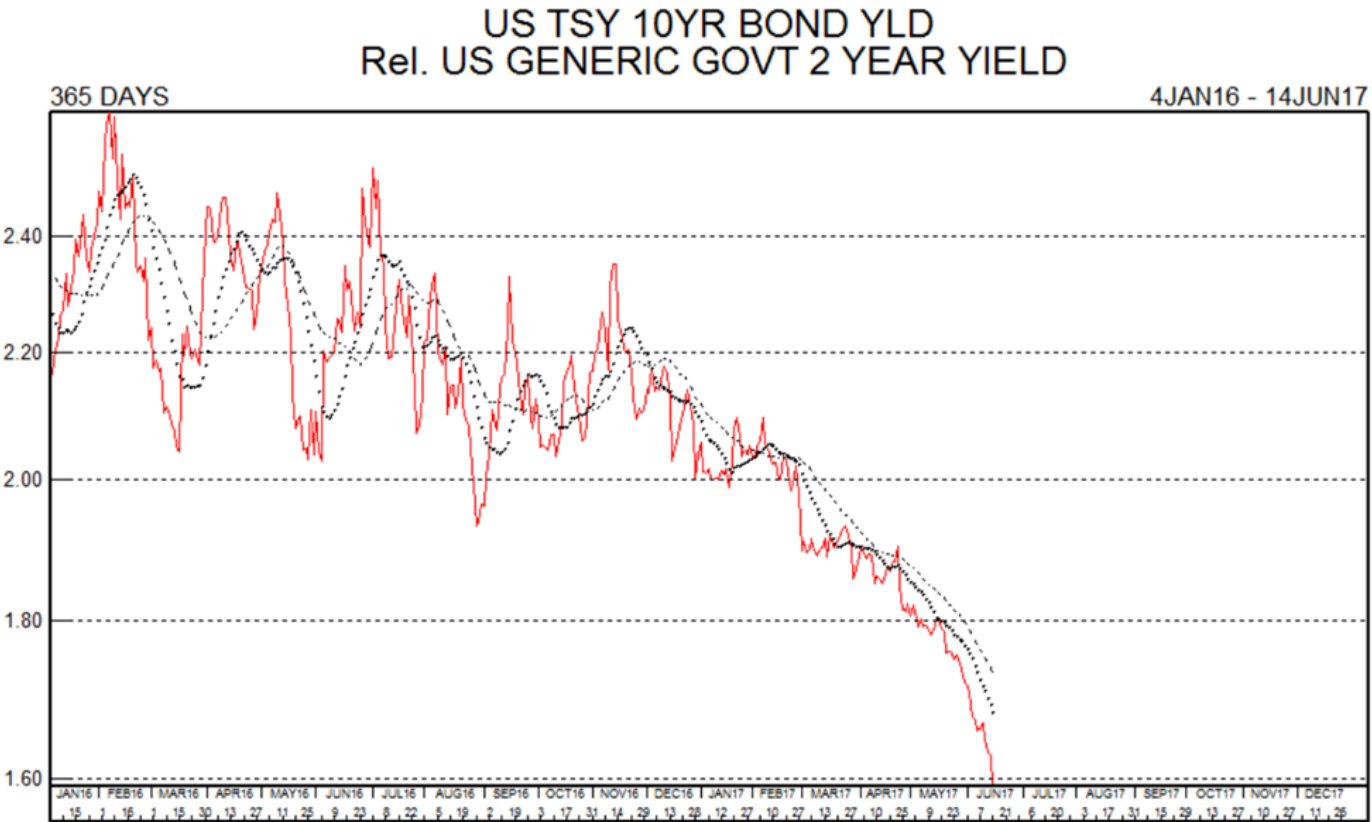
% Above/Below 200 Day Moving Average: - **0.35%**

Levels for change: to 100% stocks - **TSX 16,009** and 100% cash at **14,484**

### **In This Issue**

- Yield curve continues to flatten
- Gold
- Negative yields in Europe persist

Chart from page 1



# GOLD

It is definitely time for me to review the concept of gold ownership. I am getting more clients asking about what the prospects are for the yellow metal of kings.

## **There are two major reasons to own gold:**

1. You own gold as an insurance policy against the insane monetary policies that have been present for the past 40 years... and more specifically the past 10 years.
2. You own gold in speculation that the price will increase.

If you own gold because of reason one, you already believe in reason two. But if you are only holding gold because you are speculating that the price will go higher, then you have a different set of reasons for making a purchase decision.

First, I am going to write to the people who consider themselves in category number one. (For the record, I consider myself in category number one.)

## **If this is you then:**

- ♦ You should own more gold bullion than gold stocks.

- ♦ You should not account for your gold by price, you should account for your gold by “ounces owned”.
- ♦ You should not have more than 15% of your net worth exposed to your gold insurance policy.
- ♦ You should be ready to add to your gold position if the market value of gold starts to affirm your suspicion that the central banks of the world have lost their minds.

One of the most interesting aspects of the present financial situation for investors who have chosen to be holders of gold as a defense against central bank policy is that it costs you very little in terms of “opportunity cost” to own gold right now. If you can only get 0.25% - 0.80% on cash then that equates to the yield you are giving up to hold your insurance policy. Pretty cheap in terms of insurance!

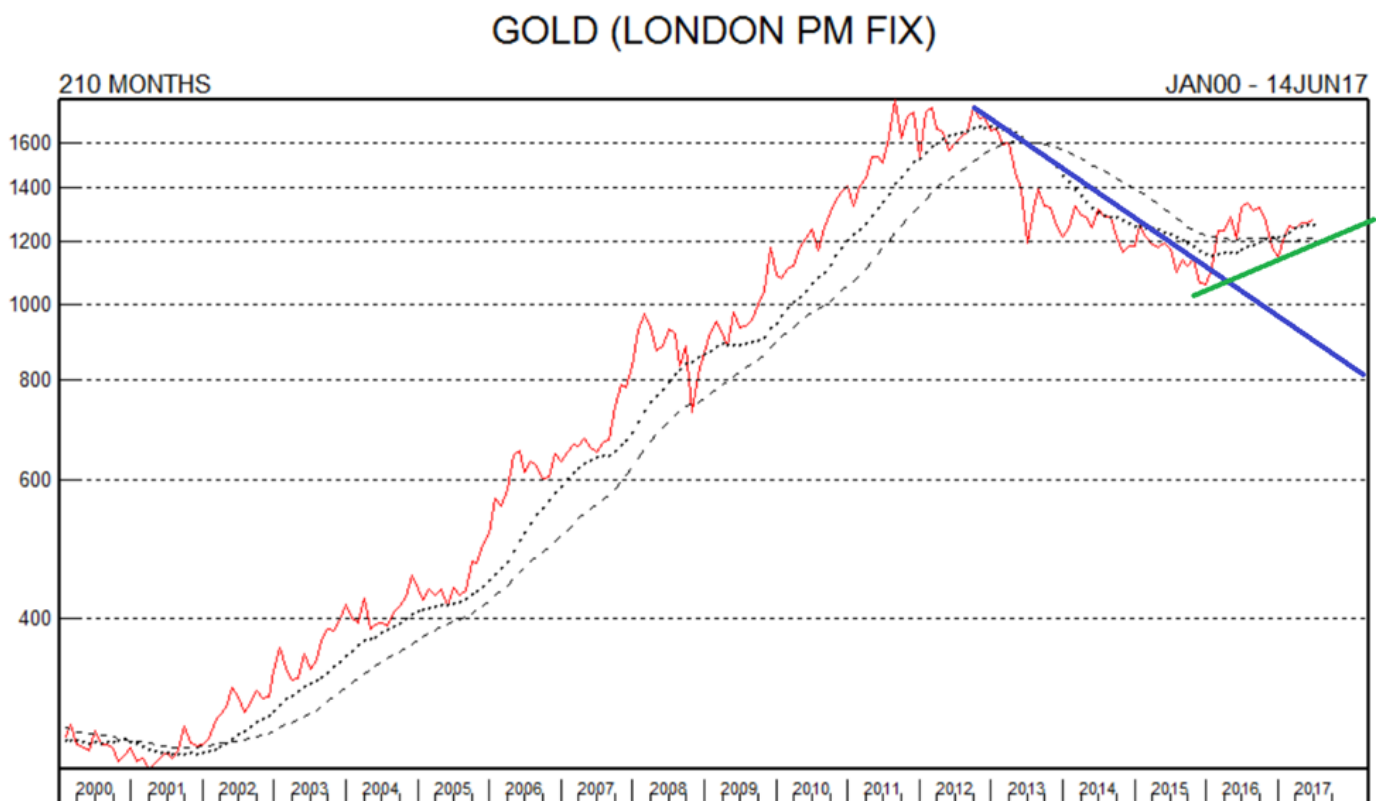
Next, let's consider the person who wants to speculate that gold prices are going to go higher.

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### If this is you then:

- ◆ You need to have defined buy and sell points based upon your strategy, just the same as you would for any asset class.
- ◆ You should keep your trading position size tied to the trend of your trade in gold.
- ◆ You should be using a blend of gold bullion and gold stocks to accomplish your goals.

Below is a chart of gold since the year 2000.

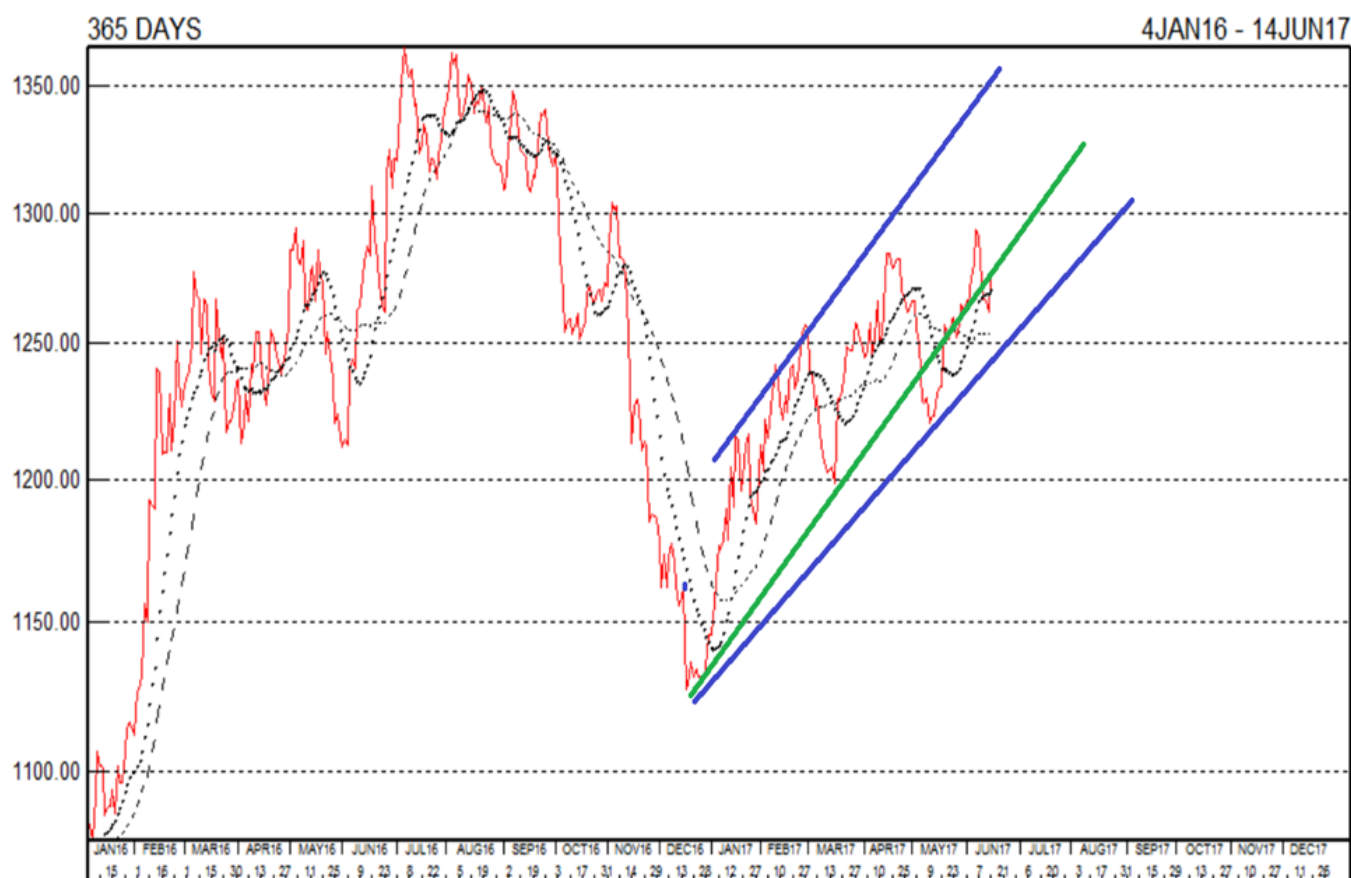


The chart shows where the long term blue downtrend line was broken in early 2016 and a new “choppy” uptrend was established in by mid-2016.

Taking a two year chart into consideration I believe we get some better speculative trading parameters to employ when it comes to gold.

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## GOLD (LONDON PM FIX)



The two year gold chart shows a green trend line and a “channel” depicted by the two blue lines. Traders can initiate positions using these trend lines as a set of “goal posts”. As long as the price of gold trades inside of the goal posts you are still “in trend.”

The reason I chose to write about gold today is because of what is happening with the Canadian dollar. The Canadian dollar has had a good couple of weeks trading and when the Canadian dollar is strong it makes buying gold cheaper for Canadian investors.

**If you have a BEARISH view on the Canadian dollar gold can be one way of hedging all your Canadian assets.**

Feel free to discuss this with me if you have any questions.



# Negative Yields in Europe Persist



There has been a lot in the financial news about the improvement in the markets in Europe since last year.

Fair enough, but what I have found surprising is that almost every European nation still has negative interest rates for their national bonds going out two or three years. Germany and Switzerland still have negative interest rates on their 10 year government bonds!

How does one really know how much financial strength there actually is in an economy when borrowing costs are still less than zero for the major banks and institutions?

The traditional idea of

improvement in economic conditions leading to higher interest rates is clearly an antiquated position to take...for now at least!

The European Central Bank (ECB) owns a huge pile of these bonds and are continuing to buy 50 billion Euro per month to hold yields down at these negative levels. One interesting sidebar is the ECB actually owns about 25% of all the European corporate bonds in existence too.

It begs the question how does the ECB ever sell these corporate bonds at any yield close to what they have driven the present yields down too?

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### ***Nick has been managing money since 1988.***

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