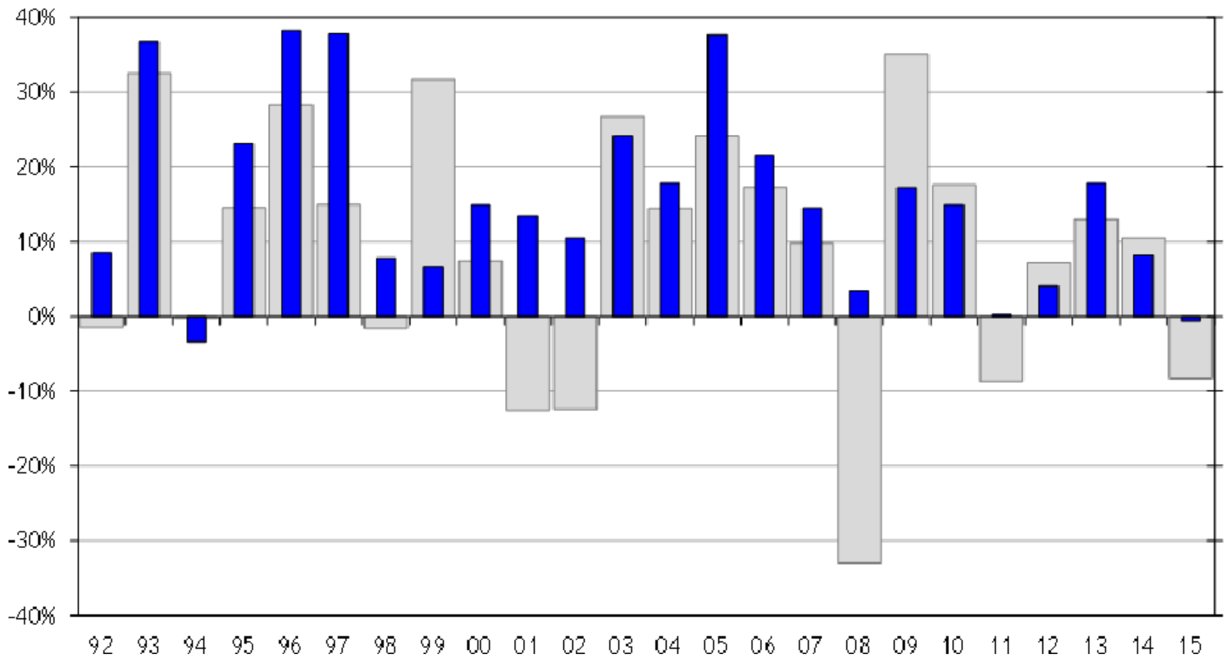
March 6th, 2017

"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: 15,608
TSX 200 Day Moving Ave: 14,812
% Above/Below 200 Day Moving Ave: **5.37% Above**

Levels for change: 50% stocks - **TSX 15,553** and 100% cash at – **TSX 14,071**

Weekly Quote

"Overconfidence precedes carelessness". – Toba Beta *"Master of Stupidity"*

Today's stock investors?

Introducing my New Team

For the past three years I have been considering what "retirement" might look like for me and my family. It is interesting that after nearly 30 years of helping people invest and consider their retirement, I would have so much consternation considering my own. The assumption would be I should have the process nailed…in reality, not so much!

The conclusion I have come to is I am still too young and love my work too much to consider retirement. My fascination with financial markets and the pleasure I get out of meeting with people, trying to help them with their financial and life goals are still a huge part of who I am inside.

So if retirement is "off the table" the next step required was to ask what does the next 10 years look like for my business. I must admit, I got really excited when I let myself consider this question…another sign I was not ready to start winding down my business.

The most important point that came to my mind was I do not want to do the next 10 years of business on my own. For the majority of my career I have worked with a team of professionals. (Most of you know Robyn and George from years past and some of you may remember Janet from more than 20 years ago) The team environment is the best fit for allowing me to be the best I can be for my clients! Additionally, this business has become too diverse and too detailed to do it on your own anymore. To be my best I need to surround myself with great people!

Therefore, let me publicly announce, that I will be teaming up with my RBC advisor colleague, David Lindblad and his assistant, Tasha Dreger over the coming year to form one of Nanaimo's largest Wealth Management teams. Also, as mentioned last week, we have added Megan Christensen to our team as my assistant. (In coming weeks, I will spend more time introducing my team-mates to you in more detail.)

David and I were at a Wealth Management training session last week for a couple of days where we were looking at the synergies to our client service models that our team merging provides. The possibilities knocked my socks off. For now, in the desire to keep this comment relatively short, let me say that YOUR client experience will be magnified significantly as our new team works together to serve you.

Let me also be totally blunt about a few of today's investing realities that stand to hinder us from achieving our life goals in retirement:

1. **Your life is far more demanding upon your savings than your parent's life**. What this means is we are living longer, doing more, dreaming more, and frankly spending more than any other generation in history.
2. **Your family tree is likely more complicated than your parent's family tree**. Forty years ago a family tree was mostly stable. In the present time, a stable family tree is the exception. <u>How to deploy, distribute, and protect your wealth is a question that requires professional planning.</u> That is part of my job and I need to focus on these types of issues as well as focusing on your investment (market based) solutions.
3. **The financial markets are generically the most expensive they have ever been in history**. If the first two points were not tough enough mine fields to try and find our way through, the state of financial markets only puts an exclamation mark on the situation.

The bottom line, you need your financial advisor to be at the very top of their game in coming years! I readily admit that I have not been committed 100% to all three of the above wealth management realities for my clients during the past 3 years. I was hoping to just do a great job on the financial markets part of the equation and call that a job well done. That approach is not going to cut it in coming years.

So I welcome you to the rebuild of my <u>Wealth Management</u> practice. It is not going to happen overnight. On the <u>investment management</u> side of the equation I have complete confidence that my clients are ready for whatever the financial markets are ready to throw at them. **We have that base covered! But I need to do a better job helping you identify your goals, desires, dreams and fears in terms of how your wealth relates to them**…the Wealth Management part of the equation. I am committed to delivering an excellent client experience in this area. We can make the plan as simple or as in-depth as you need.

I look forward to working with you in the future in these areas!

<u>The Bubble Continues…Part 3</u>

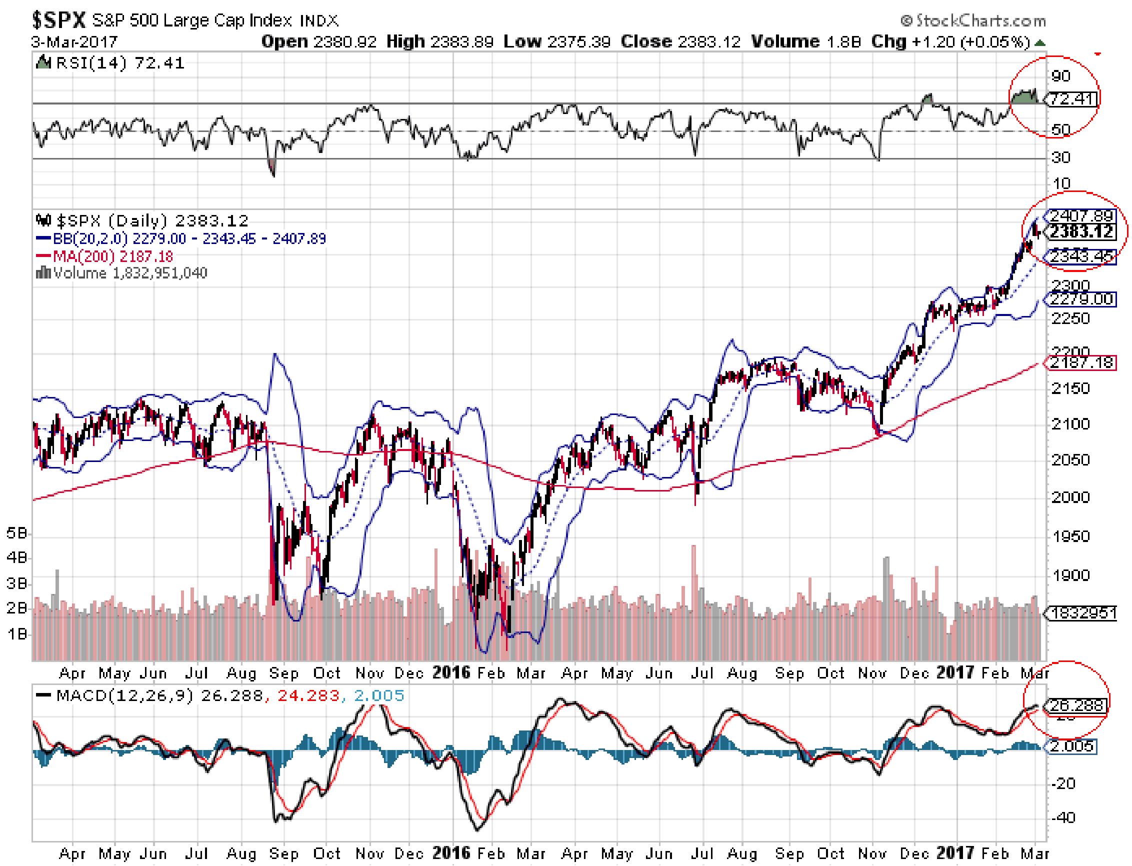
There is not a lot I can add to the commentary I have published the past two months about the US stock markets. ***Bubbles inflate until they "exhaust" and then they implode.*** As the bubble inflates the story around why "*it is different this time"* and why present over-valuation is here to stay will have a believable narrative. In many cases, people want to believe it is different this time. But at the point of bubble exhaustion, the end process is the same for each bubble.

It is also my personal belief that the REAL bubble is in the <u>interest rate markets</u> and that the real estate and stock market bubbles are second derivatives to the bond/interest rate bubble. Therefore, when looking at the completion of the exhaustion process, it is imperative we focus on interest rates.

The chart above shows the 10 year US government bond yield. (24.92 is really 2.49%) This chart tells me that IF the 10 year bond closes above 26.50 (2.65% on the US 10 year bond yield) then the potential for trouble to bleed back into the stock market becomes very real.

At this point, I see no reason to panic about the yield of the US bond…it just requires monitoring.

The next chart shows the S&P500 stock index. Other than a strong potential for a near term 3% correction, this index looks like it wants to go "quickly higher". The chart formation the S&P500 is in at present is completely consistent with past bubbles in stocks that I have witnessed and traded over the past 30 years.



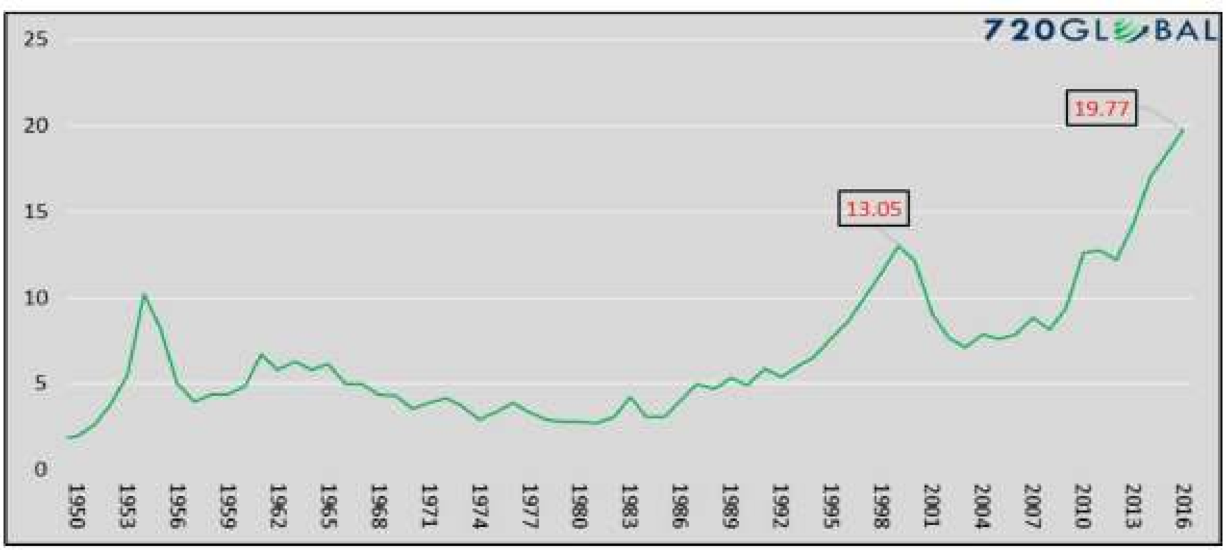
Bubbles are imperfect beasts to try and manage but they can be very profitable so it is an investor's best interest to try!

To finish I will include a couple of fundamental fact charts that give me confidence in my "bubble assessment" of the S&P 500. I have had a couple of conversations with clients challenging me that my only basis for the "bubble thesis" is technical…meaning based upon the charts. Maybe the comparison below will be a help to those thinking only "technically".

When you look at the statistics below just think how much higher the S&P 500 is in 2017 than in 1999…enough said!

720GLOBAL	1995-1999	2012-2016
GDP Growth	4.08%	1.90%
GDP Trend	2.30%	1.80%
Productivity Growth	1.84%	0.49%
Federal Debt (Trln$)	5.36	17.47
Federal Debt : GDP	60.23%	101.40%
Personal/Corp. Debt (Trln$)	15.493	41.11
Personal/Corp. Debt : GDP	156.09%	220.13%
Govt. Deficit (% of GDP)	-0.33%	-3.29%
10-Year Tsy. Rate	6.05%	2.13%
Fed Funds	5.38%	0.18%
S&P 500 3yr Earnings Growth	7.53%	-3.84%
S&P 500 5yr Earnings Growth	9.50%	0.49%
S&P 500 10yr Earnings Growth	7.74%	0.89%

Price to earnings (CAPE) divided by 10 year average GDP growth



Data Courtesy: Robert Shiller http://www.econ.yale.edu/~shiller/data.htm

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