RBC Wealth Management
Dominion Securities

INVESTMENT & WEALTH MANAGEMENT
Today and for the Next Generation

With Nick Foglietta **March 13, 2017**

A New Look

Rebranding my weekly comment publication to a format that offers a broader range of topics and appeal has been on my mind lately, and am thinking of shifting to a bi-weekly, as opposed to weekly newsletter.

Moving to a bi-weekly publication works because I now have a new email distribution list exclusively for clients and prospective clients that offers more detail regarding what investment changes we are making.

Everyone who previously received the weekly comment will still receive the bi-weekly comment, but clients and prospective clients will also receive the extra publication for two reasons:

1. When there is a change in any of the TEAM model asset allocations, and
2. When I have a specific investment comment to make.

With that I invite you to read the newly formatted publication and ask that you please offer your feedback, Megan and I welcome your comments and thoughts.

"All you have to do is decide what to do with the time that is given to you."

- Gandalf—Lord of the Rings

Tactical Equity Income Model Portfolio Record

Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation: 100% stocks
S&P/TSX 60 Closing Value: 15,450
TSX 200 Day Moving Ave: 14,855

% Above/Below 200 Day Moving Ave: **4.01% Above**

Levels for change: 50% stocks - **TSX 15,596** and 100% cash at – **TSX 14,099**

In This Issue

Early March Financial Market Highlights

Stock markets were lack luster last week. Canada continues to lose breadth with the financial stocks being the final momentum mover to the upside left in the major sub-indices.

The “bond market bubble”

Last week I mentioned that the “bubble” I am watching the closest is the “bond market bubble”. Readers sent a number of emails asking how I can consider the bond market a “bubble” if the yields are low…shouldn’t the yields be high in a bubble? The answer to that question comes when we look at the PRICE of the bonds rather than the yield. The **PRICE** of a bond is the inverse of its **YIELD.**

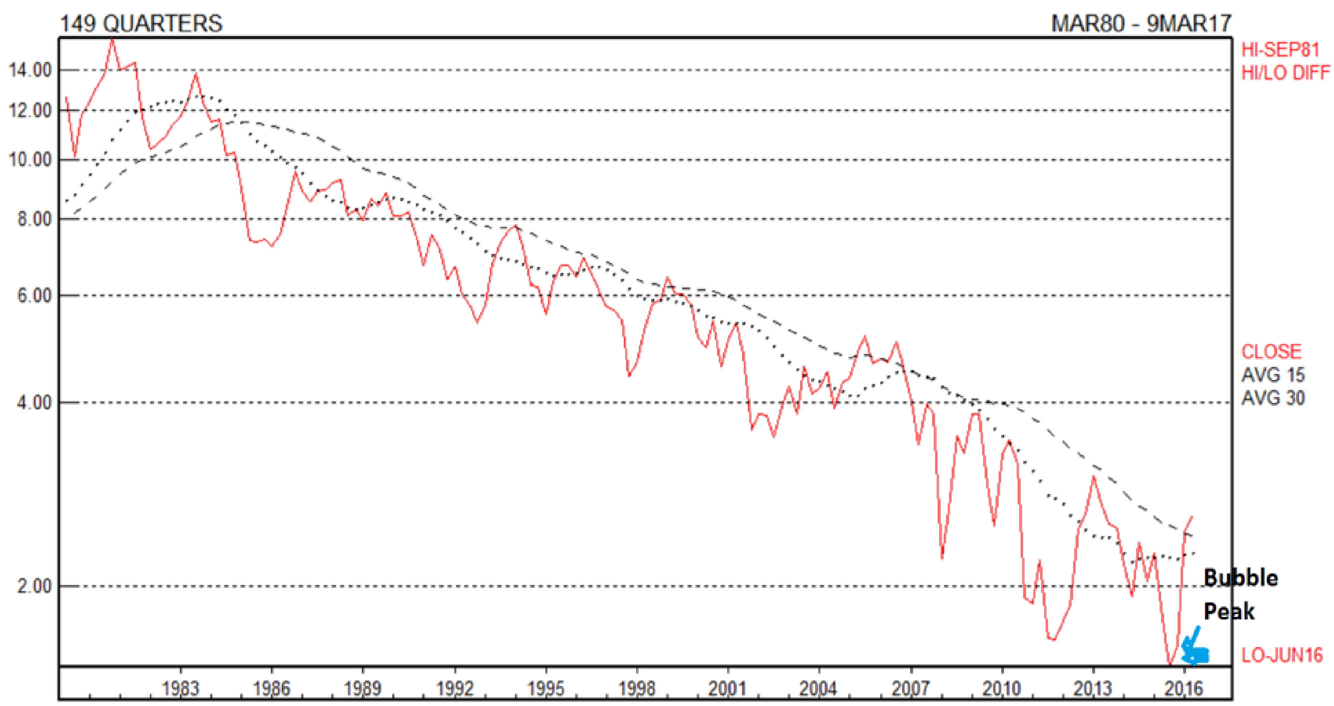
While I could not find a chart of the U.S. 10 year bond PRICE for the past 35 years, I do have one for the YIELD…so I need you to imagine that when the low point on the chart is being made in mid-2015 that it actually represents the PEAK in the BUBBLE.

“Bubble peak”

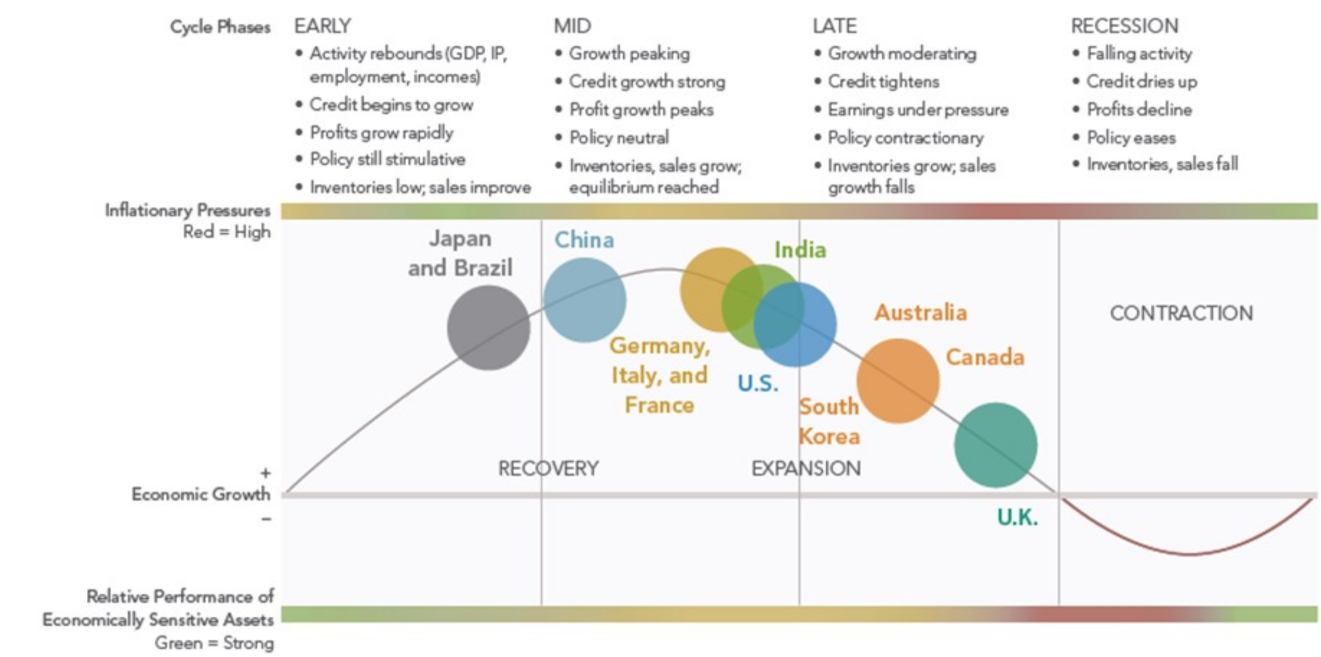
If that “bubble peak” mark on the chart proves out to be accurate, then things will get very interesting in the future…especially once we clear the 3.40% level that was the high in 2013.

May we live in interesting times!

U.S. TSY 10YR BOND YIELD



The world's largest economies are in expansion, though at various phases of the business cycle.



Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Please see endnotes for a complete discussion. Source: Fidelity Investments (AART).

The diagram above was published by Fidelity mutual funds and snapshots where they perceive the business cycle resides for the world's largest economies.

Business Cycle Thoughts

Please remember, the business cycle is not the same as the stock market cycle. **In normal cycles, the business cycle lags the stock market cycle by approximately six months.**

Think about it this way:

⇒ When the news flow and business profits are at their absolute worst, that is when the stock market bottoms and begins a new uptrend.

⇒ When the news is telling you that "everything is awesome" and the world will never change, that is when a peak in the business cycle is being create and a new downtrend will emerge with the next recession.

An unnatural length

My point is that this business expansion is growing "long in the tooth" on so many levels.

Low interest rates and Quantitative Easing have kept it moving ahead for an unnatural length of time. Donald Trump has been another shot of adrenalin.

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Moving the view from the “business cycle” to the “profit cycle” we get another interesting chart that is not historically normal.

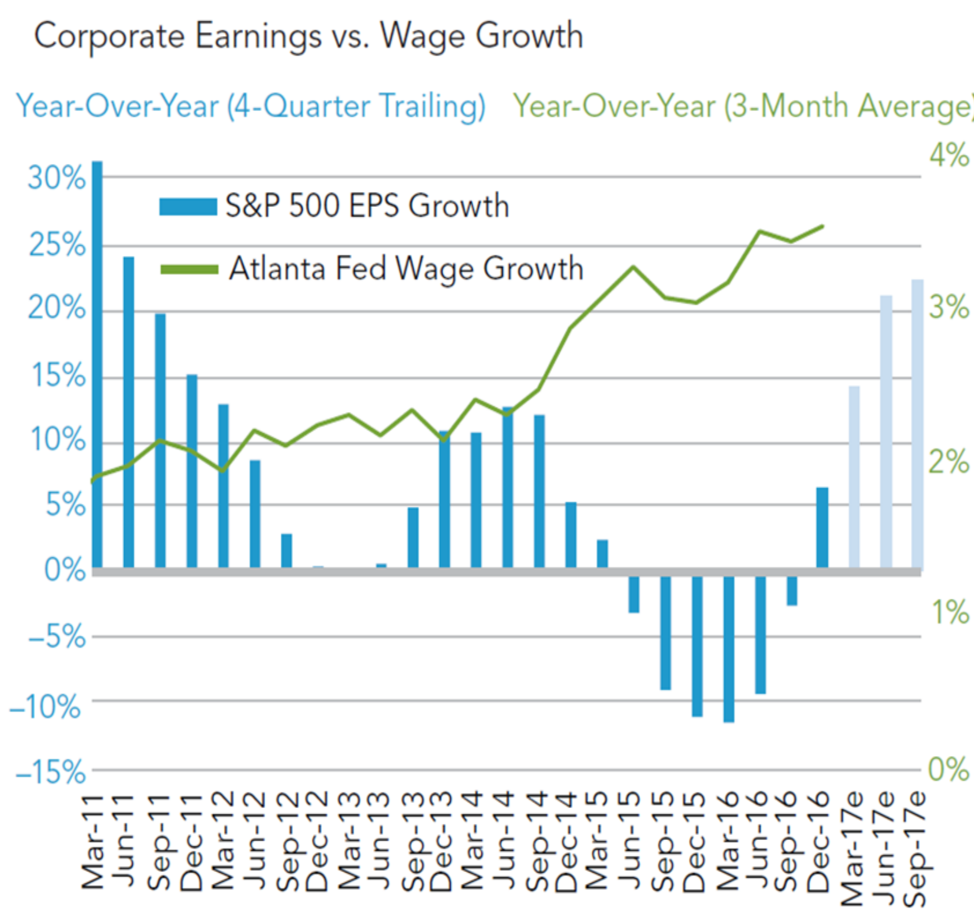
Usually profit growth builds over the business cycle and then begins to plateau when things appear the brightest for the economy. Wages tend to rise over the second half of the business cycle and start applying inflation pressure to companies.

Choppy growth

The present business cycle has seen choppy earnings growth. Wage growth has also been mainly muted. The shaded lines above show Wall Street is quite optimistic as to how much earnings are going to grow the next three quarters..

All in all, this could get really interesting!

Corporate profits have recovered but rising wage costs may cap the upside.



Third longest bull market since the 1920s

US Bull Markets: S&P 500 Composite			
Mkt Bottom	Mkt Top	Trough to Peak Increase, %	Duration in Months
Mar-09	Present	249.3	96
Oct-02	Oct-07	101.5	60
Oct-90	Mar-00	417.0	113
Dec-87	Jul-90	64.8	31
Aug-82	Aug-87	228.8	60
Mar-78	Nov-80	61.7	33
Oct-74	Sep-76	73.1	24
May-70	Jan-73	73.5	31
Oct-66	Nov-68	48.0	26
Jun-62	Feb-66	79.8	44
Oct-57	Dec-61	86.4	50
Jun-49	Aug-56	267.2	86
Apr-42	May-46	157.7	49
Mar-38	Nov-38	62.2	7
Mar-35	Mar-37	131.8	24
Feb-33	Jul-33	120.6	5
Jul-32	Sep-32	111.1	2
Aug-21	Sep-29	408.9	97
AVG		152.4	47

The bottom line:

Stay on “offense” but keep your “defensive” strategies well aligned!

The next recession will be very different from many others in history.

It will be starting from a high valuation level for stocks and real estate, and interest rates are still remarkably low, as they were not raised high enough during the expansion phase of the business cycle.

As a result, interest rates will not have nearly as much room to fall during the next recession.

Bull & Bear: Stock market cycles

The past week marked the eight year anniversary of the 2009 bottom in stock markets.

Therefore, it only seems appropriate to finish this week’s newsletter with a look at BULL and BEAR stock market cycles.

The average length and return for all U.S. BULL markets since the 1920s are shown in the red boxes at the bottom of the graphic to the left.

Please note that the present BULL market is framed in green in the chart.

Clearly, “long in the tooth” applies to the present stock market move as well as the business cycle.

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Nick has been managing money since 1988.

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