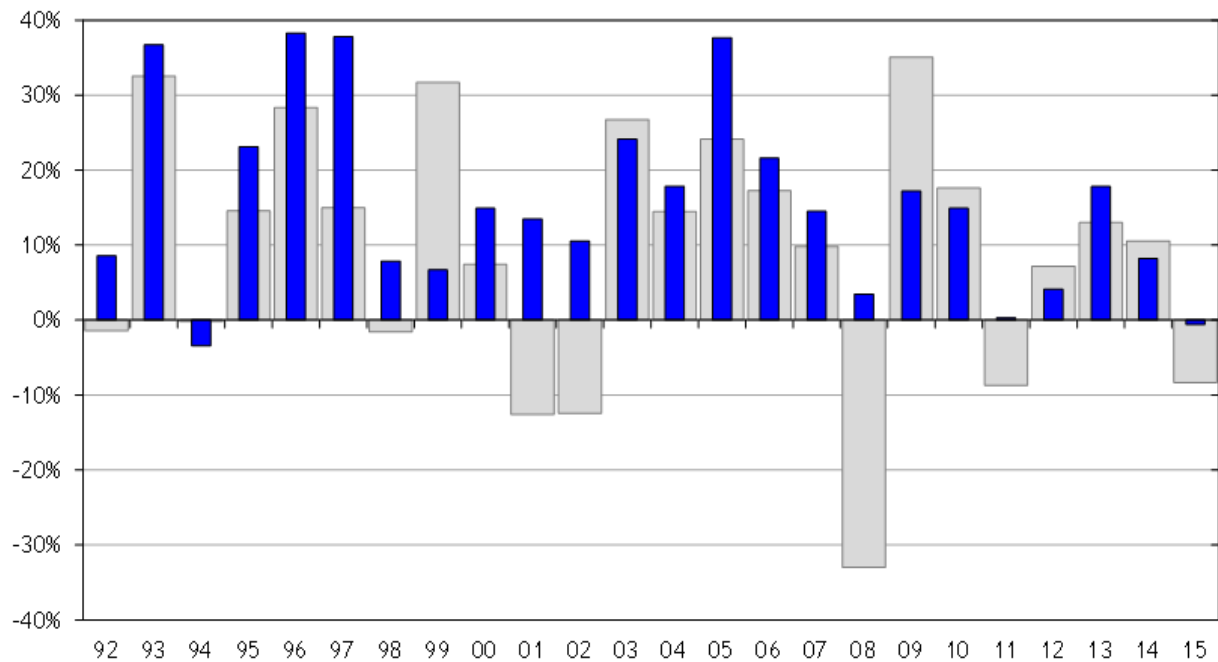


November 21<sup>st</sup>, 2016

## ***“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: 14,864  
TSX 200 Day Moving Ave: 14,075  
% Above/Below 200 Day Moving Ave: **5.61% Above**

Levels for change: 50% stocks - **TSX 14,778** and 100% cash at – **TSX 13,371**

### **Weekly Quote**

*“So we beat on, boats against the current, borne back ceaselessly into the past”*

The final sentence of the Great Gatsby...

### Thoughts Before a Comment...

F. Scott Fitzgerald left the reader with an incredible feeling of emptiness and melancholy, yet also a sense of purpose...like under all of the hustle and bustle, we are supposed to live life this way.

“The world has changed.” I have heard that line a lot (even said it a few times) since the November 8<sup>th</sup> American election. But OUR world didn’t really change. We are the same people we were two weeks ago...that is important to stay focused upon.

What has changed is the meme of the leader of the free world. I’m not going to look at the politics of this change...I am looking at the “essence” of the change!

Consider the following quote from one of the blogs I read weekly:

*Everything is a deal to Trump. Everything is a transaction, from a vote to a policy to a personal relationship. We all know people like this, men who — as the old Wall Street saying goes — would sell their mother for an eighth. **Donald Trump transforms positive-sum Cooperative Games into zero-sum Competitive Games.** It’s his nature ... his great gift as a New York real estate developer, but his fatal flaw as a politician. Is he “a fighter”? Can he “get deals done”? Sure, and there’s value in that. **But OUR great gift as Americans is that we are blessed with positive-sum Cooperative Games in the form of limited government and the political culture to maintain those limitations.** Our political culture has been changed by Trump. The teacup has been broken. Can we glue it back? I suppose. But like a broken marriage or a broken partnership it’s never the same. It’s always a broken teacup.*

So here is my challenge to you.

Wake up each day and do your best to take on what life throws at you. Don’t get overly concerned with tomorrow because; in reality, you don’t really know what it is going to bring your way. My guess is today will have plenty to capture your attention anyway. Do a great job of today and tomorrow will be there waiting for you to do the same!

And now that you’ve done your best...sit back and enjoy the show!

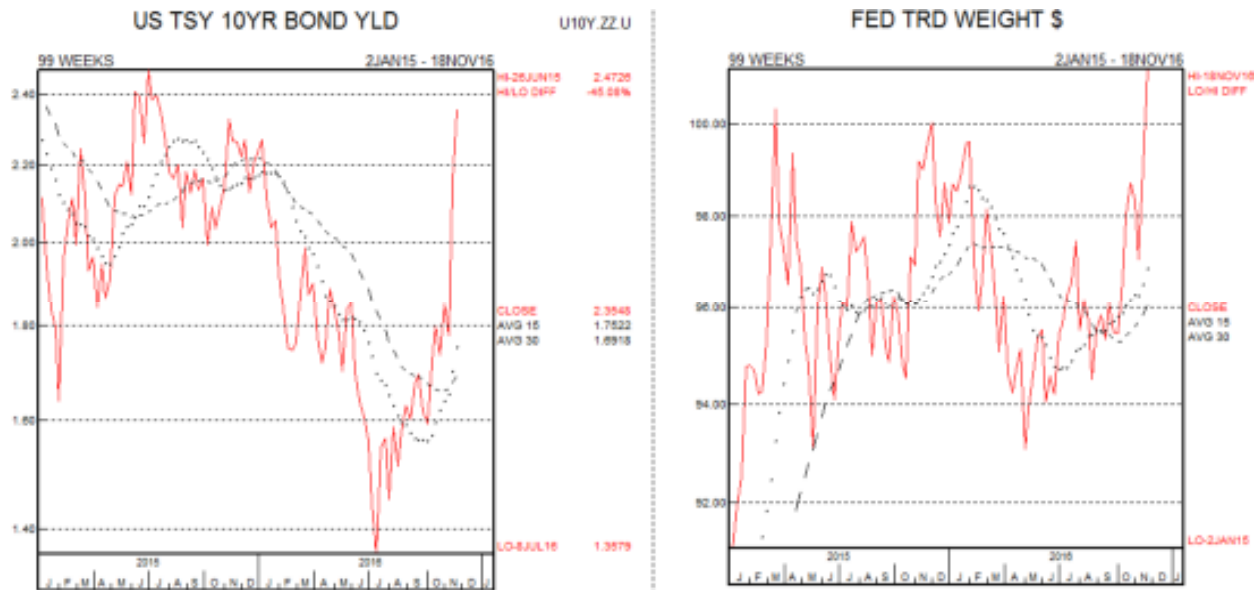
### The Markets...

The US Federal Reserve is in a difficult spot.

Interest rates and the US dollar continue to shoot higher. Trump economic policy is being interpreted as “inflationary” and all the FED can do is raise interest rates of cope

with inflation...which will cause the US dollar to go higher and put pressure on the same US businesses that are going to be helped by President-elect Donald Trump.

(Chart 1 below: US 10 year bond yield. Chart 2: US dollar vs global currencies)



At the same time, we see Japan promising to print “unlimited quantities of Yen” to try to keep the Japanese 10 year bond at or near the zero percent interest rate level.

And the European Central Bank still views the Eurozone as needing the financial accommodation to keep it moving forward in coming months.

Wow, talk about a strange set of central bank inputs for the world financial markets to try and digest.

I will let you in on a little secret. **Nobody has a clue how this all comes together in specific outcomes.** What we can do is try to pick some basic directional biases that we believe will persist from six months to a year and make some investment decisions based on these themes:

1. **Higher US dollar vs Canadian dollar** – Even if this correlation only changes by 2% during the entire 2017 year, it makes more sense than holding onto Canadian bond positions that are likely to make zero or negative return in 2017.
2. **Higher US interest rates** – American interest rates continue to look poised to trend higher. Canadian rates could follow at maybe half the rate of increase. (If US interest rates go up 1%, Canada might go up 0.5%). Bonds make no sense to me at this point in time.

3. **Own investments that sell their wares in US dollars but pay wages in Canadian dollars** – just a theme to consider on the margin of making an investment decision.
4. **Canadian Real Estate Headwinds** – Government policy changes to mortgage markets and taxes came first. Now, the higher mortgage rates are kicking in. I continue to hear more anecdotal evidence that the tone of real estate markets is shifting.

That is about as far as I have got in my investment thinking at present. As I said earlier in the comment, nobody really knows so I am just looking for clues as to what I think is building in financial markets.

It is also important to remember that all of these trends will not move in a straight line. Don't make totally radical decisions based on what you have seen in the past two weeks. But don't ignore the fact that change has come in a big way!

Co-operative sum games where the total grows for everyone are always preferred to zero-sum games where winner takes all. Has the world really started to transition to the latter?

If yes, then it will be wise to go back and adhere to the Great Gatsby quote at the beginning of the editorial... *So we beat on, boats against the current, borne back ceaselessly into the past.*

### Action Plan

Last week I mentioned that Donald Trump went from being “an Ogre” to “Ronald Reagan” overnight. This meant that financial markets perceived him go from someone to be feared to someone to be embraced.

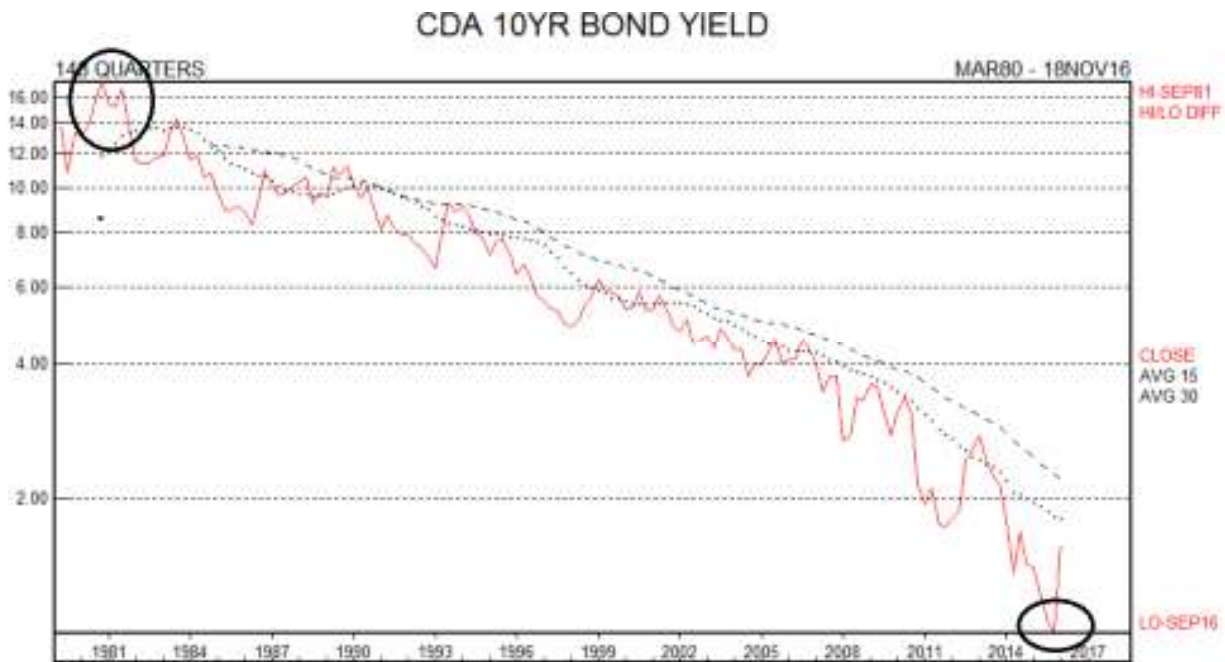
Let me state that both characterizations are hyperbole.

Donald Trump is shaking up areas of the financial landscape that need serious shaking! But he is not Ronald Reagan either. Why I say this is because he is not beginning with the same set of financial conditions. Interest rates were over 10% and the US debt was only at 52% of GDP when Reagan took office. Trump has 0% interest rates and 120% debt to GDP levels to begin with...totally different scenario!

So please let me encourage you to take your time making changes to your investment strategies. With interest rates going higher...change is warranted. But you need to let markets settle themselves out and ease into whatever new strategies you think make sense for you.

Think of it this way.

Interest rates peaked in 1982 and have been going lower for 34 years.



The first black circle represents the top...is the second black circle the bottom?

I think there is an excellent chance that it will be! **Why would we expect the same investment themes to be the BEST themes if interest rates are reversing for the long term?**

Feel free to call and chat about the contents of the weekly comment!

**About the author: Nick Foglietta is a Vice President, Investment Advisor at RBC Wealth Management in Nanaimo, B.C., Canada. He has been managing money since 1988.**

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