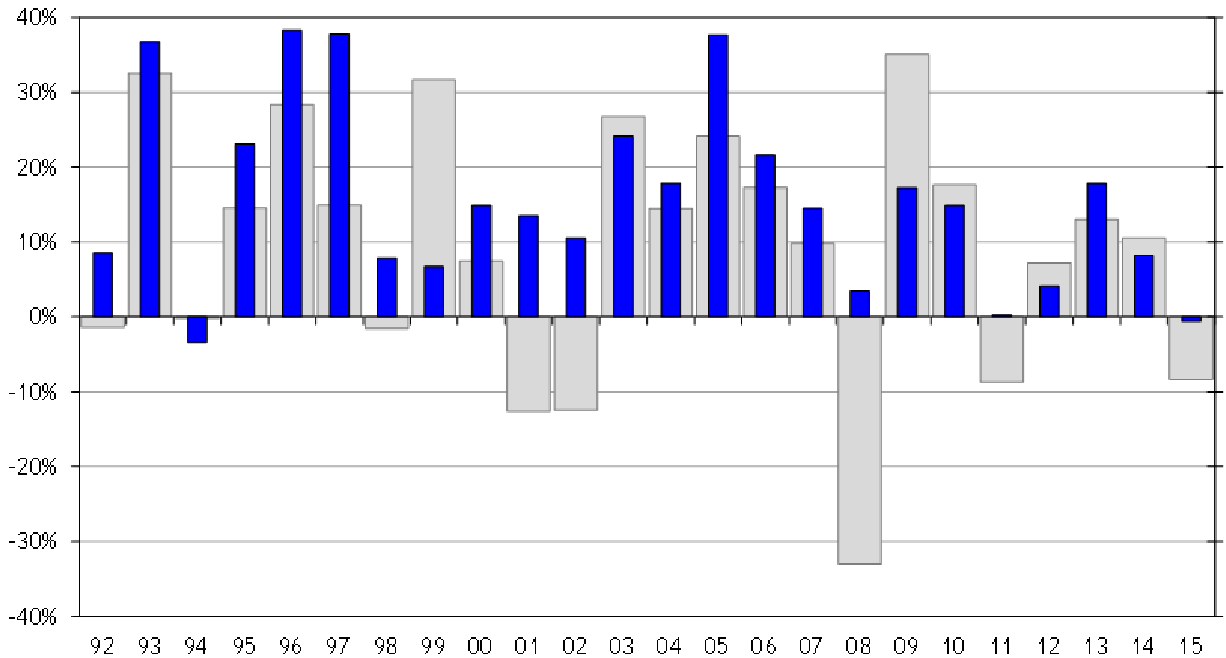
October 10th, 2016

"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: 14,530
TSX 200 Day Moving Ave: 13,760
% Above/Below 200 Day Moving Ave: **5.60% Above**

Levels for change: 50% stocks - **TSX 14,448** and 100% cash at – **TSX 13,066**

Weekly Quote

"*You can't win 'em all if you don't win the first one*" – Nick cheering for the Toronto Blue Jays in the baseball post season!

The Curse of the Billy Goat

Gotta love the baseball playoffs. The Jays have the entire country behind them. They are an exciting team to watch…hopefully they can get it done!

But the Chicago Cubs are the team the captures my attention. They are the "team with the longest curse" in sports hanging over their heads…the curse of the Billy Goat!

*The **Curse of the Billy Goat** is a sports-related curse that was supposedly placed on the Chicago Cubs Major League Baseball franchise in 1945 when Billy Goat Tavern owner Billy Sianis was asked to leave game 4 of the World Series against the Detroit Tigers at the Cubs' home ballpark of Wrigley Field because the odor of his pet goat (named Murphy) was bothering other fans.[1][2] He was outraged and allegedly declared "Them Cubs, they ain't gonna win no more," which has been interpreted to mean that there would never be another World Series game won at Wrigley Field. The Cubs have not won a World Series since 1908 or played in one since 1945.*

These types of stories make sports so much more interesting to watch. This year the Chicago Cubs amassed the best record in the major leagues with 103 wins, 58 losses for a .64 winning percentage. They are, once again, a front-runner to win it all this fall! This is not the first time the Cubbies have been the favourite going into the post season since 1945. Who can forget when Cubs fan, Steve Bartman, reached out and hindered Moises Alou from catching the foul ball that may have been the turning point in the 2003 exit from the post season? People in Chicago say it was the Billy Goat curse….

The question is…will the curse of the Billy Goat come back to haunt their 101st season at Wrigley Field? Sit back and watch…enjoy the fall classic!

In a strange way, I was thinking about the Chicago Cubs dilemma in reverse for the financial markets this week.

You see, one could argue that the financial markets have had "**the blessing of the Central Banks"** for a very long time now. **No matter what the problem is around the world…printed money and low interest rates will be administered in whatever doses are necessary to keep the problem from impacting asset prices**.

If printed money and low interest rates are not enough…central banks can just go out and buy the stocks and bonds directly.

So how, when, and even will, this central bank driven confidence ever change?

There is no way to know for sure but the key is to try and watch for signs that something is changing…and as I have been alluding to since the beginning of September…something is starting to change.

Let me share with you a possible series of events we may see in the coming year:

1. **Strength in the U.S. dollar currency index and the Japanese Yen.** – When the US dollar and Yen are strong it is a debt reduction signal.
2. **High yield bond yields going higher** vs government debt
3. **Weaker dividend paying stock prices. –** the so-called "low volatility trade" would likely stop working
4. **Economic stagflation** – more inflation with less growth…wash, rinse, repeat.

My guess is the US Fed will not let the above sequence of conditions exist for a very long time. The Fed will go to a Quantitative Easing 4 program and crash down interest rates to negative levels hoping to get the "asset train" back on the tracks again…and I expect it will work again for while at least.

Therefore, this is not a BEARISH forecast. This is a progression that I see developing.

This brings me back to what we need to be doing as investors.

Patience and discipline are required. Below is a chart of the global stock market exchange traded fund (ETF) that is an excellent representation of the price movement in global stocks from the perspective of a Canadian investor. (XWD is made up of 59% US stocks and the balance is comprised of companies from 12 other nations. There are a total of 1524 companies in the portfolio.)

When I look at the blue box on the chart since Feb 2015 I see very little movement of stock prices for investors in the past nearly two years. You see, stock prices are wedged against two walls: **too little (and diminishing) global growth and expensive valuations**.

The dilemma for investors is there is no option to get paid a return away from riskier financial assets…real estate included at these levels.

Bottom line: Investors are wise to hang around holding expensive stocks for the time being. Buying and holding has been rewarded for nearly 9 years.

But don't get complacent…like most investors have! Have a discipline and a plan. If you only need to make 4% to allow your life to function…then don't take a ton of risk trying to make 8%. Who cares what the stock market returns in a year? Let's make sure we are hitting **your goal** with the right amount of risk on the table.

At the same time, if market conditions change…let's be sure we are ready to act. Tactical modeling offers time to make choices. You know I am always watching technical levels in financial markets to make decisions.

Gold?

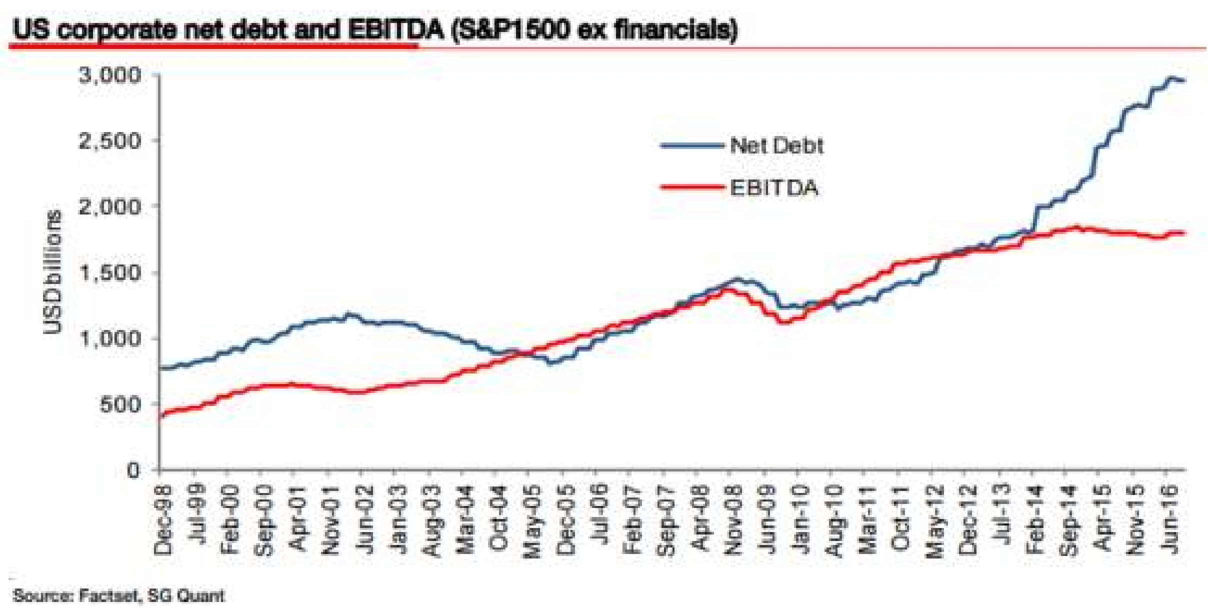
Precious metals markets felt like it was 2013 all over again this week. The stop loss around $1290 US got blown past and Gold settled in the $1250 range late in the week.

Looking forward, Gold is going to have some challenges. If the financial markets resemble anything close to what I am looking at in section one of the comments, then the US dollar should continue to climb and make holding Gold related investments frustrating in the short term.

Therefore, I am recommending investors hold gold exposures closer to the low end of their personal ranges until the price of gold clears $1350 US again.

For long term holders, QE4 and the subsequent loss of confidence in central banks will bid gold prices higher…maybe much higher. Since it impossible to time when this loss of confidence crosses some threshold where "it starts to make a difference to investor psychology" it makes sense to be a long term gold holder with the right balance in your portfolio.

One of the charts that caught my attention this week was the chart of US corporate debt versus earnings for the last 20 years.



What you're looking at is unsustainable. It is also clear that higher interest rates would cause significant pressure to the relationship.

I could show you 10 more charts that are only sustainable with low interest rates being maintained…and that is why I am intrigued by the question of what happens if rates do go higher?

Anyway, back to Gold. None of this is great for Gold prices in the short term. Canadian investors will be shielded a little bit by the weak Canadian dollar. But gold investors should take heart…your day is in front of you…but it is not today.

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.