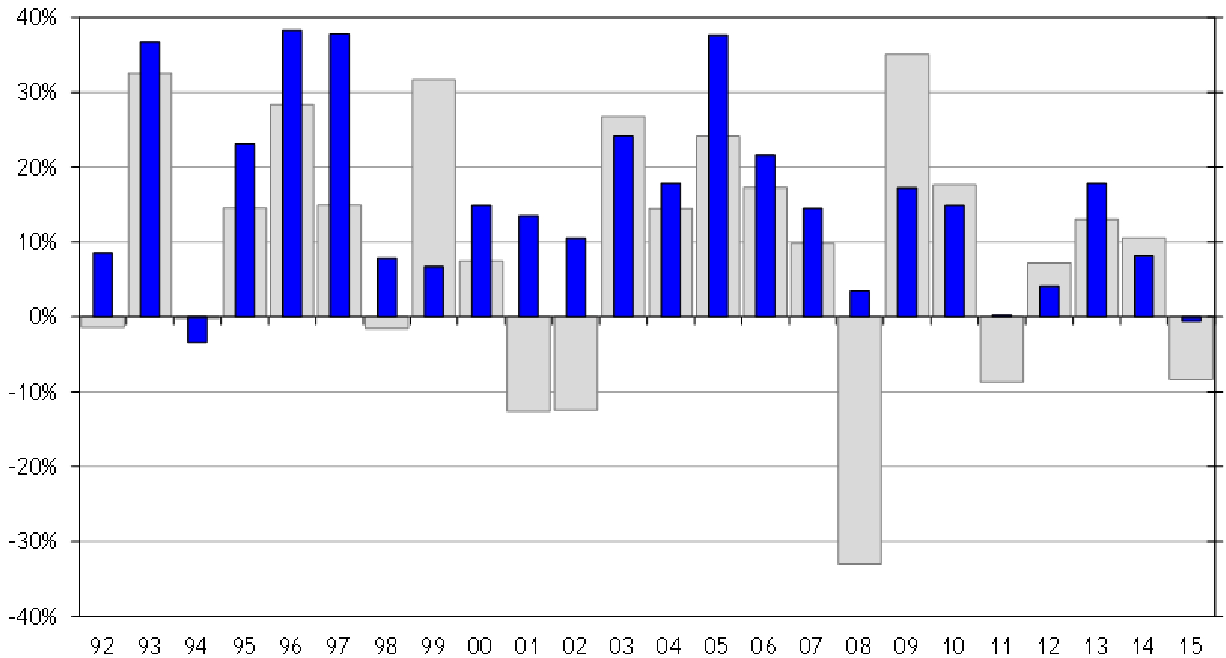
October 17th, 2016

“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: 14,650
TSX 200 Day Moving Ave: 13,787
% Above/Below 200 Day Moving Ave: **6.25% Above**

Levels for change: 50% stocks - **TSX 14,477** and 100% cash at – **TSX 13,084**

Weekly Quote

“*When the cost of capital goes to zero, the rate on capital goes to zero too.*”

Nick comment: I’ll have to think about that one for a while…but there is building proof for the concept.

Stable on the Outside…Weak on the Inside

The global stock markets are trading with significant reservation these days. The “usual suspect stocks or top 15% of companies by market capitalization” are holding up well but the overall internals of the stock market are VERY slowly deteriorating.

I am not trying to read too much into the above paragraph, it is just what the markets look like to a technician.

Let’s take another look at the Blackrock “IShares” MSCI World Stock Index Exchange Traded Fund. (XWD-T)

Remember, this share holds stocks from 13 global markets prorated to the market capitalization of the companies. There are 1527 companies in the ETF.

Let’s face it…that chart has been running sideways since March 2015…almost 2 years now. To keep stock prices running flat the world has witnessed zero percent interest rates, negative interest rates, Quantitative Easing, central banks buying stocks right off the stock markets, companies buying their own stocks at record volumes…and whatever else you want to talk about!

All of this for what the chart shows to be flat stocks for the past nearly two years.

Please don't take the above point as a complaint. It is meant to simply state reality! **The good side of this reality…well, stock prices have held in nicely. The bad side of this reality…there are a lot of underlying value/price dislocations that become more difficult to manage the longer the manipulated state of asset prices exists**.

The more I think about where the financial world stands today the more I think about themes revolving around the "quote of the week".

"*When the cost of capital goes to zero, the rate on capital goes to zero too*."

Is this relationship valid? Do asset prices have an upside terminal end value that represents as much as anyone will pay for them? How do the central planners of the world "encourage" investors to pay more for assets and further drive the prices higher?

These are pretty deep questions. Throughout history statements have been made about high prices and why they represented true long term value. Each time something has come along to change the perception of value and bring prices back to a level where more investors were interested in buying.

But this time really is different! Central banks are indiscriminant buyers of stocks…so are companies when repurchasing their shares on the markets.

The entire financial landscape is cobbled together in the faith that central banks will continue to hold interest rates down near zero.

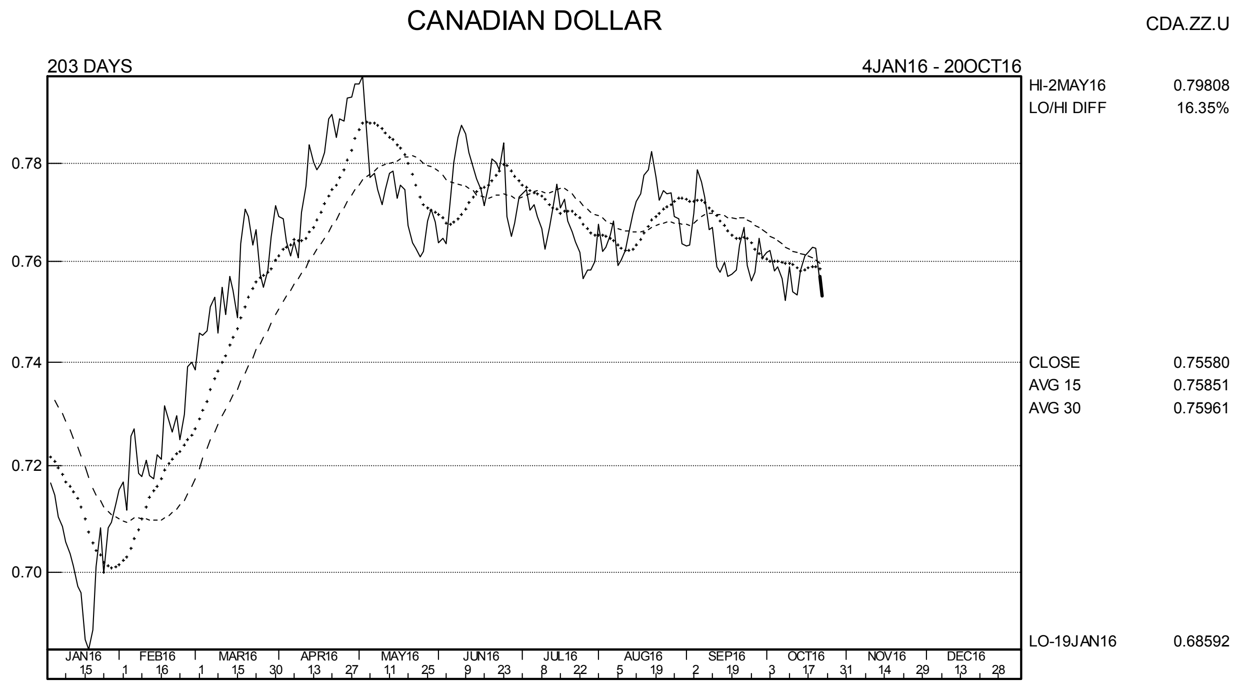
My best advice continues to be stay invested as long as the TEAM model stays invested but to be sensitive to declines. In other words, be ready to take action!

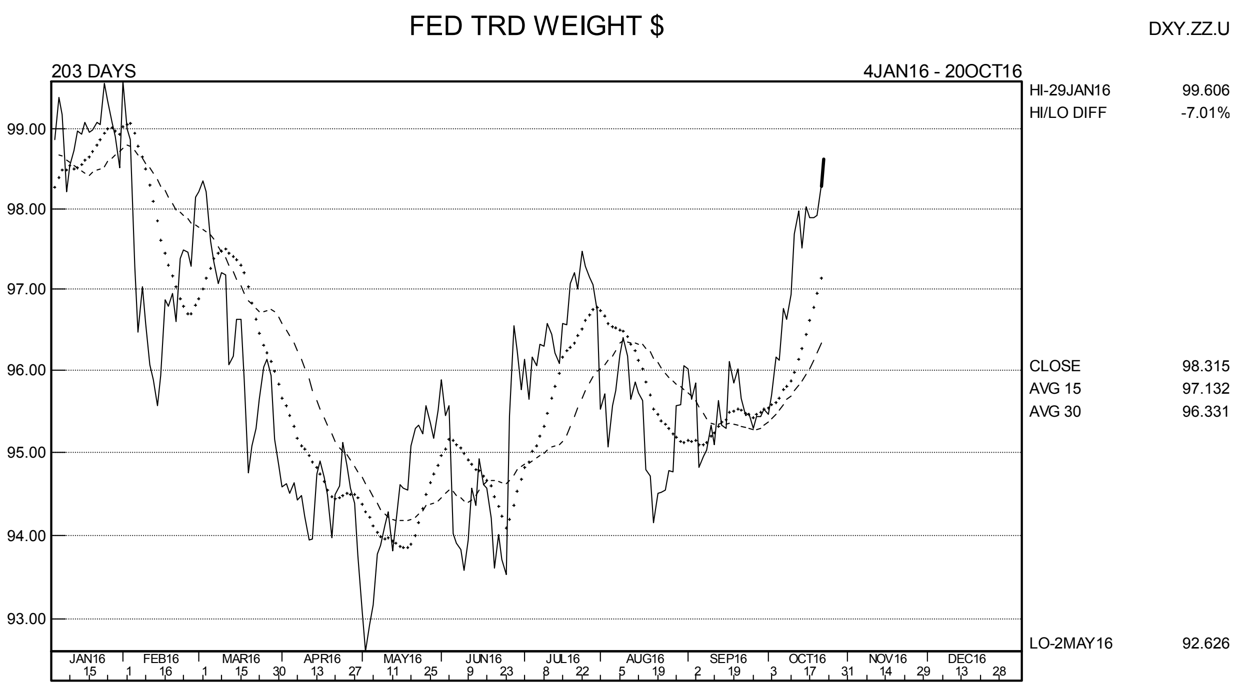
The Mighty Dollar

Currency markets continue to be the most amazing to watch these past weeks. To be fair most of the movement one has seen in the stock market in Canada has been attributable back to the decline in the Canadian dollar vs. the US dollar. (Chart 1 below)

But there is more to the story. The US dollar is ripping higher against the Euro and the Chinese Yuan too! (Chart 2 below)

The simple explanation is the world believes the US FED is going to raise interest rates some time before the end of the year but the rest of the global central banks will need to hold tight on interest rates or cut them.



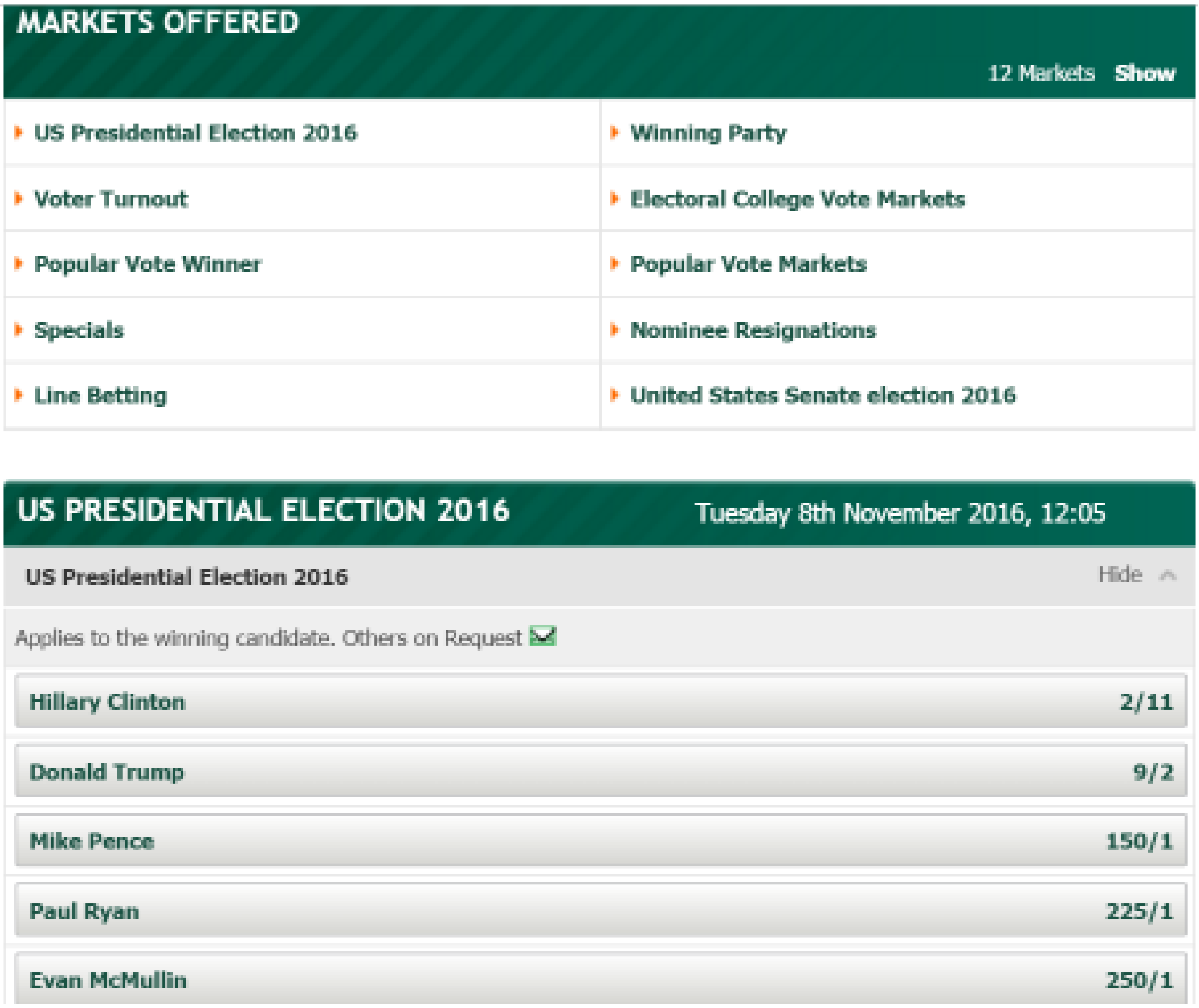


The quickly changing currency markets are another reason not to get complacent about your investment portfolio.

Please feel free to call if you have a question about your portfolio.

<u>"Un-Gridlock?"</u>

The window has "almost" completely closed for Trump to win the US election on November 8th. The Paddy Power odds, which I consider much better than polls, have gone to 2/11 for a Clinton win. Shown below…(That means an $11.00 bet would pay $2.00)



What I think the markets need to start to consider is a "sweep Clinton victory" where political "gridlock" is eliminated and the Clinton government will be able to move unencumbered.

When I Googled articles pertaining to this thought last Thursday nothing came up for recent writings. That always makes me think this could be a surprise outcome and markets may decide to respond to the possibility of a sweep outcome in coming days.

Historically, stock markets like "gridlock". I'm not sure that would be true again…we will just have to wait and see.

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.