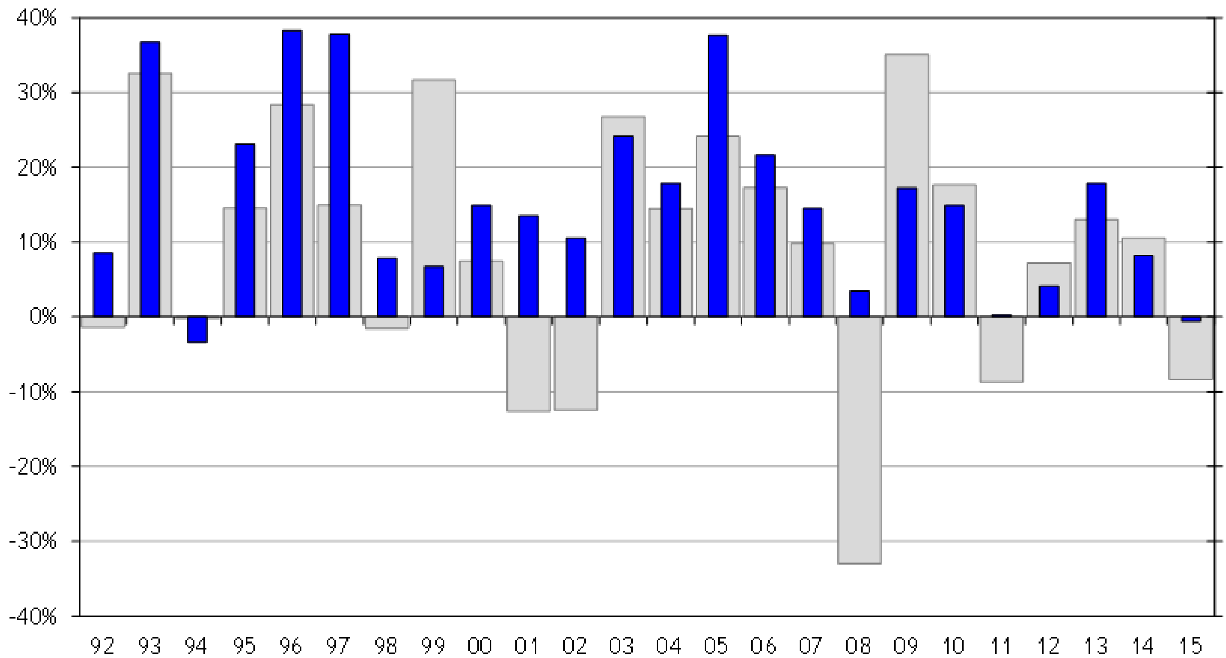
October 31st, 2016

"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: 14,840
TSX 200 Day Moving Ave: 13,896
% Above/Below 200 Day Moving Ave: **6.80% Above**

Levels for change: 50% stocks - **TSX 14,590** and 100% cash at – **TSX 13,201**

Weekly Quote

"Baseball happens to be a game of cumulative tension but football, basketball and hockey are played with hand grenades and machine guns."

John Leonard

Fiscal Year End – Looking Back Ten Years

October 31st represents our banking year end in Canada. There are lots of year-end jobs that are required and I always take the time to do some long term plotting and planning at year end.

The chart above shows the Canadian large sized company stock index from January 1st 2007 until present…10 years! It also shows how pathetic the recovery has been coming out of the 2008 “great recession”. (And Canada was not even hit that badly compared to other countries around the world!)

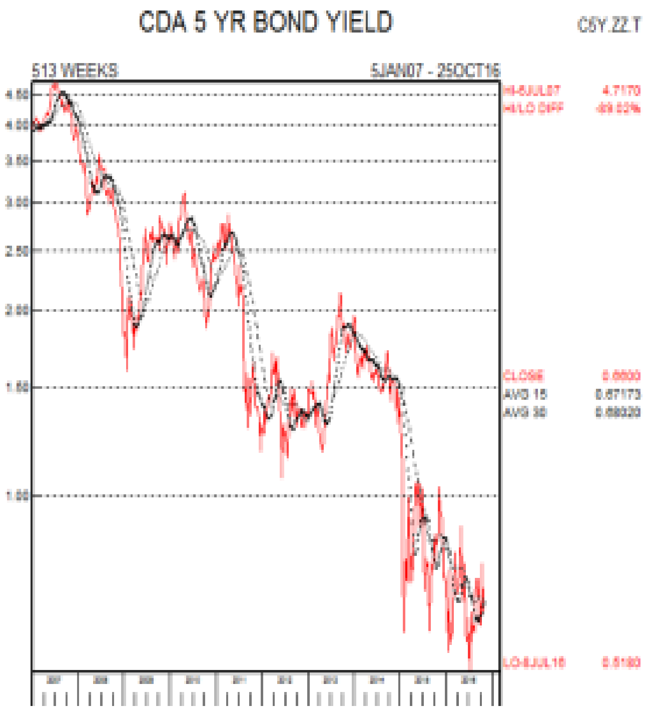
If you eliminate the 18 month period from July 2008 to December 2009 (above) you get a chart that shows little stock market performance in Canada. Basically, the Canadian stock market has trended sideways and traded within a 25% range for the majority of the last decade.

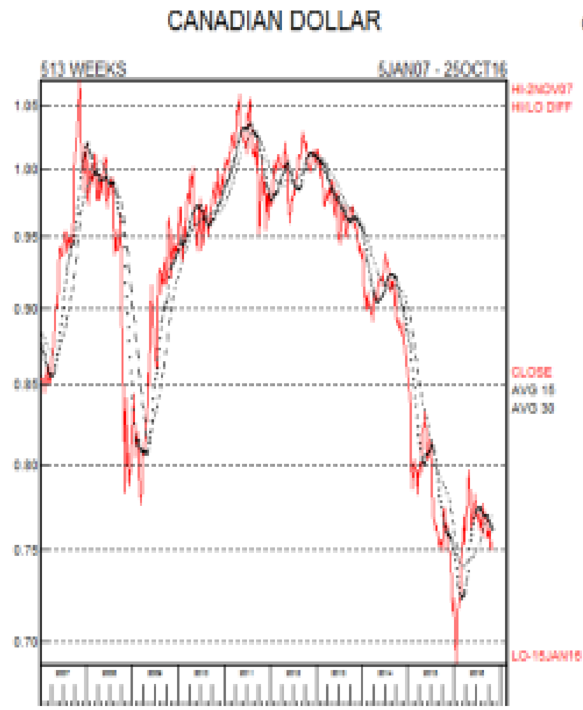
That is tough news to swallow.

I know, your mutual fund company or advisor keeps using data that takes its starting date from after April 2009 and tells you how much better you have been doing. Whatever…the picture doesn't lie! On a ten year basis, outside of the higher dividend paying companies in Canada, stock market performance has been flat.

Now, if the above performance had been realized because the central bank had been raising interest rates and the Canadian dollar had been rising relative to other global currencies I could, at least, make the point that the markets are building in a "buffer" for the next economic downturn.

The charts of the 5 year Government of Canada bond yield and the Canadian dollar show the opposite is actually true! The stock markets have been SUPPORTED by a perverse manipulation of interest rates and monetary policy!





So where does this scenario leave our investment markets and our economy?

Let's spend a bit of time on both concepts.

The investment markets now require constant "coddling" from central planners. Higher interest rates would certainly require a re-evaluation of investments…and lower rates that will stimulate more speculation require ever deeper plunges by the central banks into "extreme monetary policy".

For now, the stale-mate between central banks and asset prices that started in the first quarter of 2015 when global stock prices peaked remains intact.

The general economy actually interests me more at present. Rapidly rising minimum wages are required to try and keep the working poor in survival mode. (*As an aside, the working poor are the fastest growing demographic I see coming in the local foodbank on a weekly basis.)* Analysts say that they believe the higher minimum wages are not having a negative impact on the companies since they are not closing restaurants down en masse. But I would argue that when you see kiosks being erected in your local McDonalds restaurant…a kiosk that eliminates four jobs at $15.00 per hour per restaurant in the future…you are seeing the response to higher wages. Job elimination and automation.

Higher paying middle management jobs are also under fire. Companies that can't grow their top line growth continue to look for ways to cut costs. That is natural.

Manufacturing has already seen its "chainsaw reformation of labour", it seems working professionals are next in line.

What I am trying to get at when it comes to the economy; **somebody needs to work and get paid a decent wage to keep the economy healthy**. If you cut off the entry level jobs so young people can't get a foot in the door, and you downsize the middle class jobs so you have a significantly smaller middle class working demographic…who is going to buy all the "stuff" out there in the world?

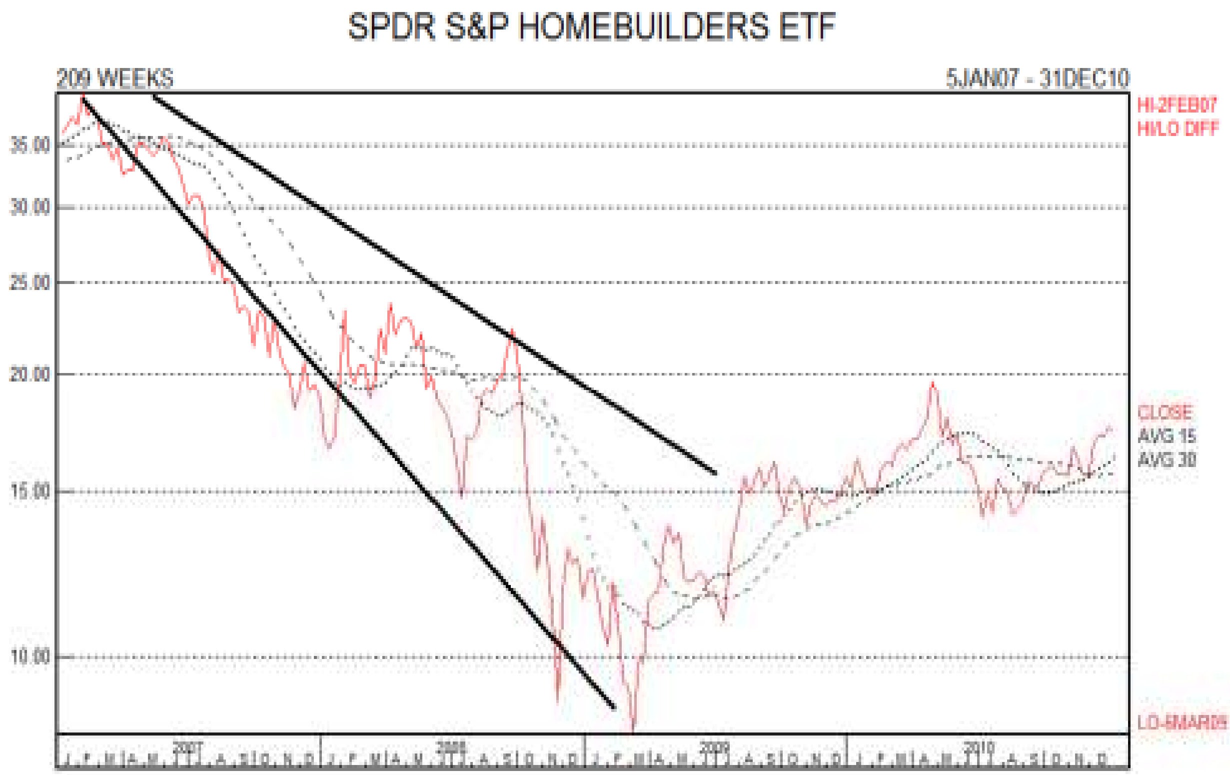
Bottom line: It has taken decades for all of the above to transpire. Real growth and productivity are elusive commodities around the economies of the world. Monetary policy has brought us this far…meaning assets that have benefitted from monetary policy have started to stagnate and all the other economic areas that have not been impacted or impacted negatively are still basically comatose.

The stalemate may stay in place for a much longer time than one imagines. Creating a portfolio that creates an income stream is an excellent idea still today. **But don't be complacent in your portfolio management. Have disciplines set up that tell you when and how to make adjustments.**

As said many times in these letters in the past. **If you don't know your discipline please get in touch with me.** It is my pleasure to discuss this with you and make sure you are comfortable with what is happening with your wealth!

US Homebuilding Companies

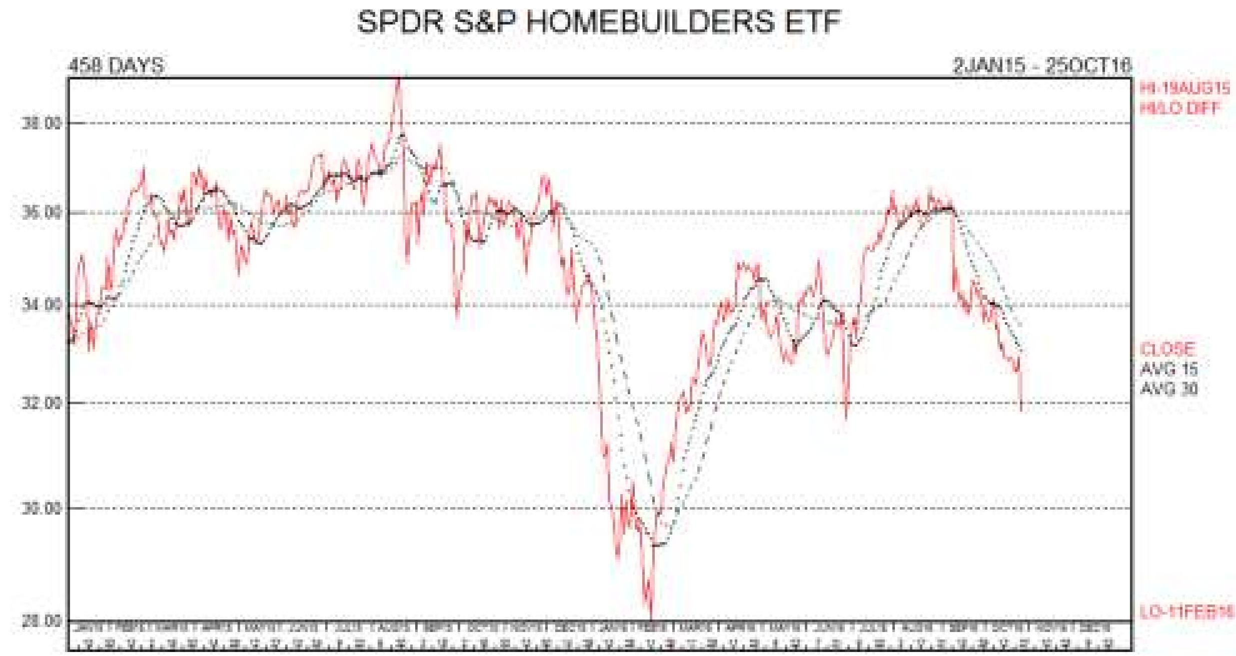
Whoa! There is a blast from the past…but since we are talking in terms of 10 year charts, let's take a look at another area that has caught my attention. US homebuilders got obliterated in the housing crisis of 2008. Take a look at the chart below to see what that decline looked like: Below is a chart showing the stock prices of America's largest homebuilders from January 2007 to December 2010.



A move from $39.70 per share down to $8.25 is a steep decline!

When considering the asset bubble of 2016 I don't think housing will be as negatively impacted as it was in 2008 when housing "WAS THE BUBBLE!" That said, I do think housing will participate in the next US recession AND it is less likely to be manipulated by the central banks since they have not started buying houses. (Not yet, at least!)

Check out the chart below for the last two years of the US homebuilders.



Obviously, not a chart flagging a BEAR market yet…but definitely worth keeping an eye on in coming months.

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.