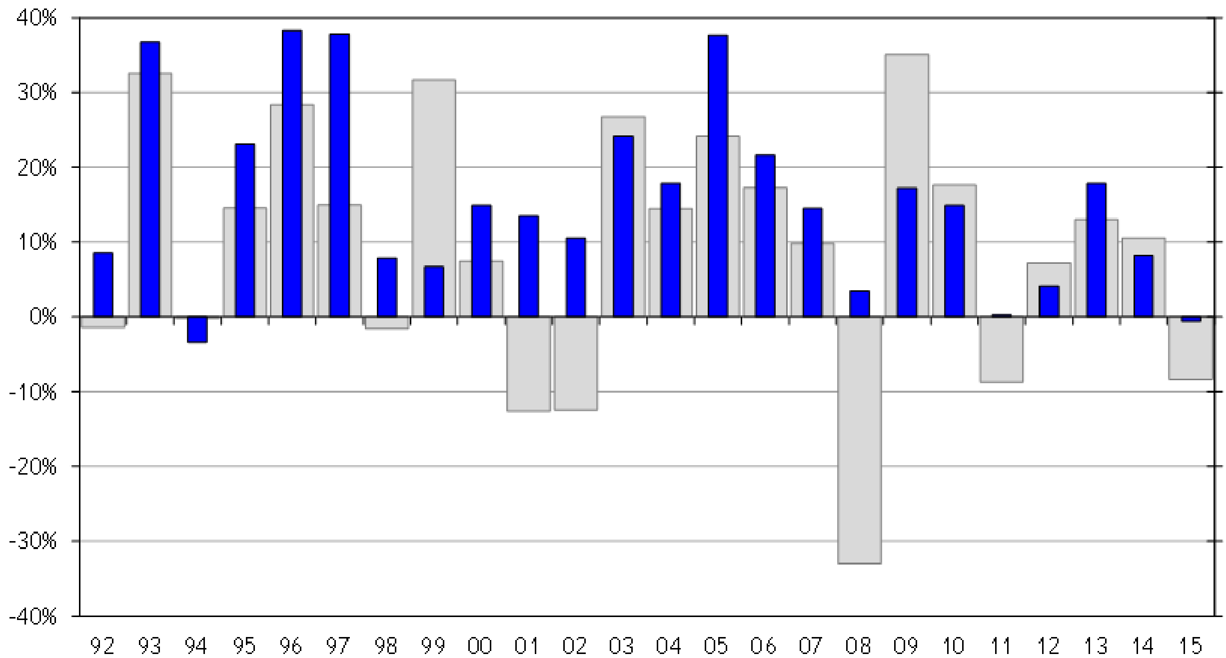
September 26th, 2016

“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: 14,697
TSX 200 Day Moving Ave: 13,684
% Above/Below 200 Day Moving Ave: **7.40% Above**

Levels for change: 50% stocks - **TSX 14,368** and 100% cash at – **TSX 13,000**

Weekly Quote

“The road to success is always under construction” – Arnold Palmer

<u>Two Central Banks…No Courage!</u>

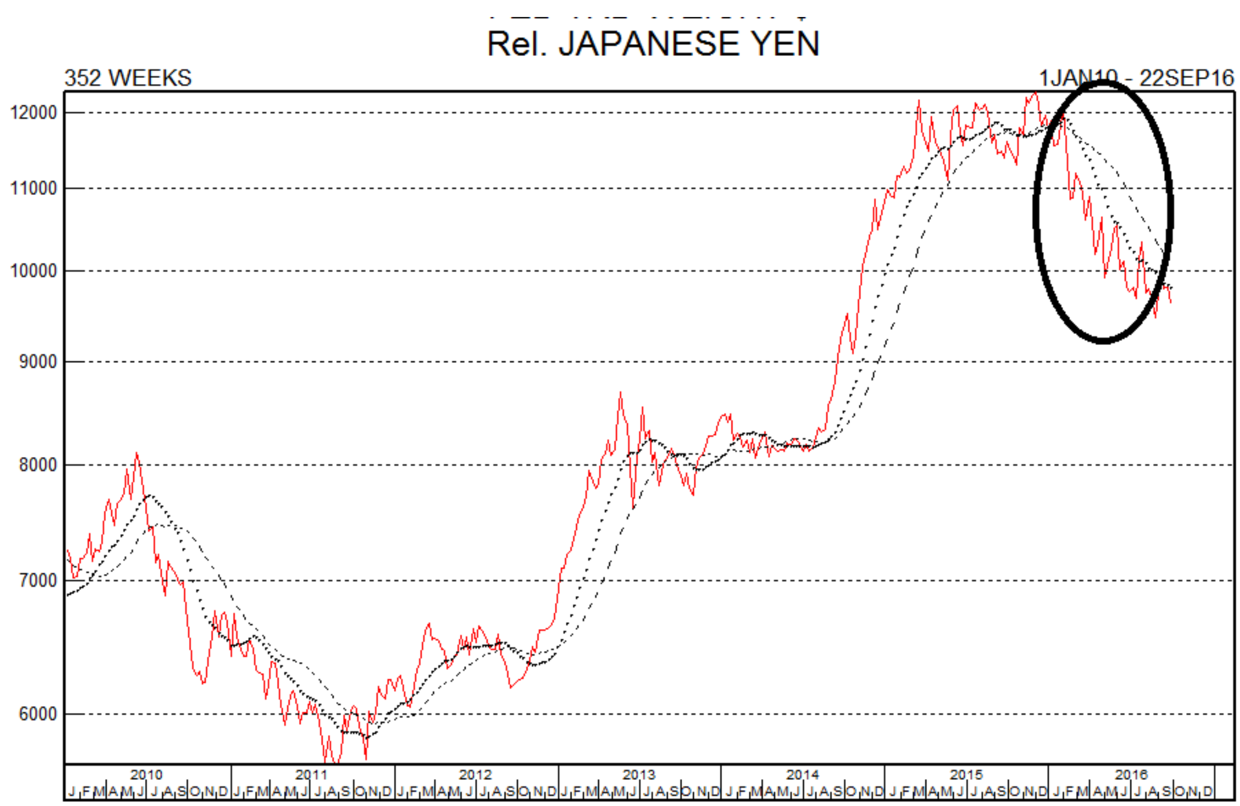
Let's jump right into the meat of this week's comment. There is a lot to cover and "*times are a changin!*"

First, on Tuesday September 20th, the Bank of Japan (BOJ) met and came away from the meeting looking like "over-cooked spaghetti". What I mean by that is the BOJ could not agree to make any significant move in their policy. This happened for two reasons:

1. They have made so many insane moves that even the board members of the BOJ are reluctant to go out and make a more insane move by starting a Quantitative Easing using foreign bonds! (That would require printing Yen…selling Yen…buying foreign bonds in the local currency. It could really hit the yen hard!)
2. There is fear that the political representatives in Japan are going to over-ride the BOJ if they get any crazier!

I think point two is the deep fear of ALL central banks**. What if the politicians take away the central bankers autonomy?** Maybe the question would become…why do we need central bankers anyway? (You know how I feel about that one ☺)

Let me show you a graph to help you see the problem in Japan. The following graph shows the Yen relative to US dollars.



From 2011 to the end of 2015 the Yen was devaluing nicely. The Quantitative Easing was having the desired effect in Japan. Then in 2016 something changed…the Yen started to strengthen **even though the BOJ was approaching "maximum monetary irresponsibility!"**

I cannot tell you why this happened. If someone knew they would have told the BOJ how to solve the problem and get the Yen weakening again.

So now you have the situation **where any remaining pretense of monetary dominance in Japan is dead. Responding to the BOJ's generous invitation to give up the fight, it may be only a matter of time before Prime Minister Abe chooses to assert his fiscal dominance."**

This would likely mean a fiscal package that would see wages ramped higher in Japan to create (hopefully in the minds of the Japanese elite) inflation.

OK…that was huge last week. But the US FED was at it last week too!

The US FED decided not to raise interest rates…to nobody's surprise. Last week I made the comment that I didn't believe the FED would do anything and that the stock market would initially jump on the news.

All that happened according to plan. My next comment was what really interests me is how the financial markets trade in the days and weeks AFTER the announcement. This is going to give us our best clue as to answering the question…**is the global stock market support being eroded as the central banks lose their dominance?**

The answer to this question is an unequivocal YES. Honestly, it is not that hard to understand the human dynamic of what has happened when it comes to our confidence in our global bankers.

The world wanted to believe the central bankers knew what they were doing. Ever since Alan Greenspan applied the Keynesian solutions to the stock market crash of 1987, the world gave the central banks a free pass on monetary policy. They could do whatever they wanted…as much as they wanted!

For a long time, "easy money" made life easier for most people. It made recessions shallow and recovery times quick. The wealthy prospered disproportionately to the middle class, but the middle class still saw their asset prices rise and had a greater ability to borrow more money they did not have to buy more things they did not need.

The 2008 downturn was different from the others since 1987. We call it the "great recession" but that is an understatement in my estimation. The aftermath of 2008 has been akin to lowering the average temperature on the earth by 10 degrees. Zero interest rates, negative interest rates, quantitative easing, corporate buyback and debt binges, etc…they were all supposed to “prime the pump” and get the world moving again economically. They were supposed to be temporary measures and, at some point, interest rates could rise again and rebalance the economic equation. (Raise the average earth temperature back to normal again.)

Obviously, 8 years later…that never happened. And dropping the average earth temperature by 10 degrees has impacted a lot more stuff than the stuff the economists were measuring.

But the world still had faith bankers knew what they were doing…

My question to you is…**do you have faith in what the central banks are doing**? Do you believe there is still a greater benefit than detriment to holding interest rates near zero?

Maybe the answer is best seen in the rise of Donald Trump. People often say how does the US end up with Donald and Hillary? Maybe a lot of people losing faith in the system is part of the reason we see the rise in “Making America Great Again”. Hillary tried to tell the people “America is still great”. That never went that far as a slogan…I wonder why? Start by asking the bottom four quintiles of the US population.

And before anyone in Canada sticks their chest out thinking we are not like that…think again. Our present situation in Canada is worse than the US was in 2008. We are an accident waiting to happen.

So here is the bottom line: **Faith in Keynesian monetary policies and central bankers holds the present system in place. As long as that remains the status quo can exist: If belief in the central banks erodes to a point where interest rates stop obeying the wishes of the central banks, things will get interesting quickly.**

This brings us full circle to Japan. Japan is the real canary in the coal mine. Watch Japan…I guarantee you the other central bankers of the world are!

Investment Reality of the Above Comment

Trying to anticipate a change or inflection point in central bank confidence has been impossible. Measuring confidence is not like measuring GDP…

With interest rates as low as they are it makes the likelihood of a steep break in asset prices lower. There is so much money looking for a home that even small price breaks are bought by traders and investors.

The TEAM model is designed to handle the onset of a BEAR market when it arrives. We don’t have to fret trying to figure out if it is here.

My hope is you will adhere to the changes the TEAM model recommends in your asset holdings outside of the fund the next time it changes. When I call you and say the model has shifted…please carefully consider that with you bank and utility holdings that you have held for a long time.

Thank you for your confidence.

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.