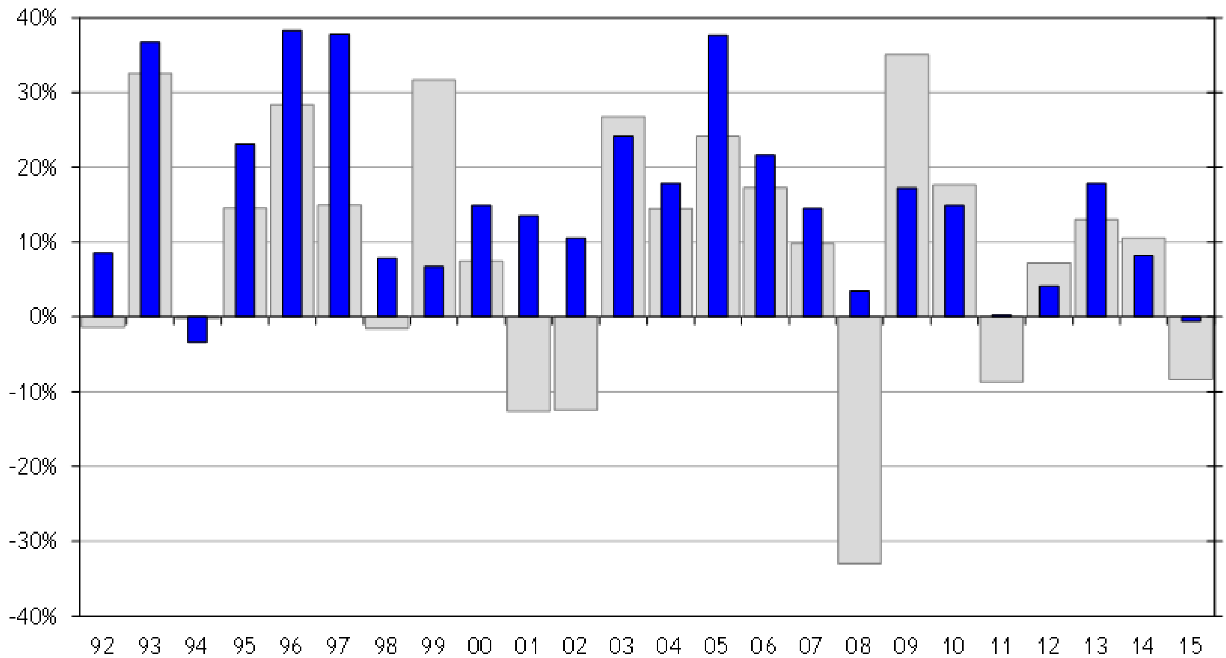
September 5th, 2016

“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:	14,700
TSX 200 Day Moving Ave:	13,584
% Above/Below 200 Day Moving Ave:	**8.22% Above**

Levels for change: 50% stocks - **TSX 14,263** and 100% cash at – **TSX 12,904**

Weekly Quote

Solipsism – (n) the view or theory that the self is all the can be known to exist

Update

Financial markets traded in light volume up until Thursday as people enjoyed the last true week of summer.

Friday's U.S. payroll number was a little weaker than expected and this cooled some of the rhetoric surrounding a September interest rate hike by the FED. For a payroll Friday, markets were rather boring compared to most which seemed fitting since the Labour Day long weekend was upon us.

So we arrive at September…a month that can be nasty for financial markets. I really don't expect anything too significant for September 2016. I would not be surprised to see the month start with a bit of weakness, but when the FED leaves interest rates as they are on September 19th, things will likely perk up again.

The balance of the weekly comment is a review and reflection on a very "out of the box" article I read last week. Please feel free to make comments.

Beliefs

Since it is the day after the Labour Day weekend and, what most people consider the "end of summer", my weekly comment is going to stay "philosophical" in nature so it can be enjoyed and considered. As the base for first section this week I borrow on a brilliant article written by Ben Hunt at Epsilon Theory Fund.

Ben is an incredible thinker. If you are not in the mood for shifting your thought paradigms then don't read Ben! His editorial is entertaining…it makes a number of legitimate points about many characteristics of the present financial world. My goal is to summarize one theme from the editorial and let it linger with you as we kick off the month of September. (If you would like a copy of the whole editorial Google – Ben Hunt Magical Thinking)

Here it goes;

How did "we" all come to believe in the financial world we live in today? What would your grandfather say about how the world views a home as an "investment"…or how debt is a good thing to be accumulated? What about accepted thoughts that negative interest rates are "necessary" or that savings have little value because they pay such a small return…or a bunch of other financial ideas rather unique to our time in history?

Incredibly, so much of our "financial belief" hangs on the tenant of a small group of people in nice clothes who run the global central banks and fuel our financial doctrine. Even our elected political leaders have abdicated their influence to the bankers.

But what do the central bankers really know? I mean…what do they really know beyond what anyone of a million other financially educated people know? For years the world has ascribed to them "secret" or "inside" knowledge…but much like the Wizard of Oz, the curtain is being torn away to show the central bankers as…well, people.

Consider the following passage from George Orwell's *1984:*

"What are the stars?" said O'Brien indifferently. "They are bits of fire a few kilometres away. We could reach them if we wanted to. Or we could blot them out. The earth is the centre of the universe. The sun and the stars go round it."

"For certain purposes, of course, that is not true. When we navigate the ocean, or when we predict an eclipse, we often find it convenient to assume that the earth goes round the sun and that the stars are millions upon millions of kilometres away. But what of it? Do you suppose it is beyond us to produce a dual system of astronomy? The stars can be near or distant, according as we need them. Do you suppose our mathematicians are unequal to that? Have you forgotten doublethink?"

Winston shrank back upon the bed. Whatever he said, the swift answer crushed him like a bludgeon. And yet he knew, he knew, that he was in the right. The belief that nothing exists outside your own mind — surely there must be some way of demonstrating that it was false? Had it not been exposed long ago as a fallacy? There was even a name for it, which he had forgotten. A faint smile twitched the corners of O'Brien's mouth as he looked down at him.

"I told you, Winston," he said, '"that metaphysics is not your strong point. The word you are trying to think of is solipsism. But you are mistaken. This is not solipsism. Collective solipsism, if you like. But that is a different thing: in fact, the opposite thing."

Could central bankers be living in a world of "collective solipsism"? Maybe they have been so used to believing in their own power to control financial markets that they have forgotten that "their" world is not the world of 99.9% of the other human beings on the face of the planet? As Ben Hunt states, maybe the FED and their "mandates" are more akin to a coven of witches and warlocks casting spells intended to impact the markets in <u>their</u> desired manner? Consider the following reasoning:

I can't help but think of Stanley Fischer, vice-warlock of the Fed coven, saying in Jackson Hole that we need thrice interest rate raises (one last December, two more this year) to quell the inflationary winds. Or raise them. Or whatever sort of weather that Fischer is trying to manufacture. It's really hard to tell.

But here's the kicker. When a spell doesn't work, no one in the magically thinking society believes it's because spell-casting itself doesn't work. It means that the spell wasn't performed properly. Either the priest-kings said the words wrong or they didn't think the right thoughts or there's some other invisible force that we need to propitiate first. So what always happens, and I mean "always" in the sense of This. Is. Human. Nature. and has been happening in a rhyming sense for tens of thousands of years across every human society that ever lived, is this:

In phase 1, the priest-kings try harder. They seek out purer ingredients for their spells. They speak more loudly, more convincingly, more stridently. If two crocodile teeth were used in the past, now they use four. Or eight. It's not just "more", it's "MOAR!". Often there's an internal purge near the end of phase 1.

In phase 2, the priest-kings regroup and tweak the spell. Maybe instead of "targeting" (another word for "praying for") a 2% inflation rate, we need to "target" a 4% inflation rate. Maybe we should change the magic word "inflation" to "nominal GDP growth" and see if that works any better. Sure, why not? This tweaking process has happened, it is happening now, and it will happen all the way to the bitter end. What will never happen is that the priest-kings quit. There's always another tweak, always another word choice, always another order in which the words can be said.

In phase 3 — and this is where we are now in the historical process, somewhere near the end of phase 2 and the beginning of phase 3 — the priest-kings are challenged by a rogue priest in their midst (rare) or an alt-priest coming out of nowhere (common). By "nowhere" I mean that the alt-priest is an Other, whether that's a foreign religion or a foreign geography or a foreign (i.e., non-priestly) caste. The alt-priest isn't about tweaking the spell or casting it louder. He's about doing an entirely different spell, and he's about accusing the incumbent priests of incompetence or worse. The alt-priest is always *a populist, and populism comes easy when the incumbent spells have been failing … and failing … and failing.*

As I said at the beginning of this editorial…I'm just throwing this out there for your thoughts. But what if the problem isn't with the U.S. FED and the rest of their central banking cohort? **What if the problem is actually with the rest of us for believing or buying into the "spells" that the central bankers cast?** (The rest of this section is Ben Hunt's conclusion at to the question above.)

See, the problem isn't with the Fed. They're going to do what solipsistic, magical thinking priest-kings have done for ten thousand years … more of THAT. More solipsism. More magical thinking.

More 4 year old egomaniacal determination that their spell casting efforts are the ONLY things that stand between us and utter ruin.

No, the bigger problem is with us. ***The bigger problem is that we cannot imagine a solution for our current economic and political problems that does not rely on greater and greater state-directed spell casting****. Monetary policy spells not working? Well, golly, I guess our ONLY alternative is to try some fiscal policy spells. Really? That's the best we can come up with? I understand that this is what the courtiers are going to say. But I expect more from the rest of us. I expect more from myself*.

What I'm saying is that we need to think less about Scottish witchcraft, a la Macbeth and James Frazer and Stanley Fischer, and more about the Scottish Enlightenment, a la David Hume and Adam Smith and Alexander Hamilton. What I'm saying is that we need to focus on empiricism and on what works in the real world, not theory and what "works" as an equation. What I'm saying is that usually the better course of state-directed action is to do less, not more, and the better course of individually-directed action is to do more, not less. ***What I'm saying is that the old good magic of small-l liberalism and technological innovation in the service of man rather than the replacement of man is pretty darn powerful itself, and the stories still inspire****. Let's embrace and encourage THAT as we make our way through what is still a largely inexorable world.*

Nick comment: I hope I did justice to what Ben Hunt was writing about. When Louise was proofing this section of the editorial she made the comment, "*who is going to be the first to question the doxology of the central banks*? Your thoughts and comments are welcome!

Swiss National Bank Stock Holdings

The reason I have included the following excerpt from a Aug 30th Reuters article is because you should be aware that the Swiss National Bank (equivalent to the U.S. Federal Reserve) is in the markets buying stocks Remember that the Bank of Japan is also doing the same thing:

Switzerland's central bank now owns more publicly-traded shares in Facebook (FB.O) than Mark Zuckerberg, part of a mushrooming stock portfolio that is likely to grow yet further.

The tech giant's founder and CEO has other ways to control his company: Zuckerberg holds most of his stake in a different class of stock. Nevertheless this example illustrates how the Swiss National Bank has become a multi-billion-dollar equity investor due to its campaign to hold down the Swiss franc.

***It is now the world's eighth-biggest public investor**, data from the Official Monetary and Financial Institutions Forum show. While most analysts think the strategy is sound, this does expose the SNB to stock market risks that the likes of the European Central Bank and U.S. Federal Reserve avoid.*

The result is that its pile of foreign currency reserves - which rose to the equivalent of 635.3 billion francs ($650 billion) at the end of June from 529.5 billion francs a year earlier and 226.7 billion francs in 2010 - is likely to keep growing.

The SNB's balance sheet is now proportionately the biggest of any leading central bank. On top of that, its stock portfolio has risen at roughly twice the rate of the overall balance sheet as it diversifies its holdings.

In the last 12 months the SNB's equity holdings have surged 41 percent to around 127 billion francs, according to Reuters calculations. Part of this is due to stocks increasing in value despite losses in recent months, as well as new purchases.

The SNB has also diversified across stock markets. The United States is its favoured location, with its holdings on Wall Street jumping to nearly $62 billion at the end of June from $38.6 billion a year earlier, according to a Securities and Exchange Commission filing.

This includes $741 million in Facebook shares, giving the SNB a 0.28 percent stake, according to Thomson Reuters data. The figure is larger than the 0.17 percent of the firm's publicly-traded stock held by Zuckerberg.

The SNB is not obliged to make a profit under its mandate to ensure price stability and support Swiss economic development. However, it did report a net profit of 21.3 billion francs in the first half of 2016 and its shareholders, including Switzerland's cantons, have grown used to a hefty annual dividend payout.

Still, not everyone is happy about the bank's strategy of money printing and buying up stocks including constituents of the U.S. S&P 500 index.

"The SNB creates Swiss francs out of thin Alpine air," said James Grant, publisher of Grant's Interest Rate Observer, a U.S. financial markets journal.

"Then they go and call their broker and go on a tour of the U.S. stock exchange," he told Finanz und Wirtschaft newspaper. "They get involved in important companies from the S&P which create real profits, and they do that with money which has been created out of nothing."

Nick Comment: Tough to imagine the stock market falling too much with buyers like the SNB at the ready to swoop in and buy any discounted quality companies. But the process is not fair to all companies. Larger companies are advantaged over smaller ones. Another good point to consider.

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.