Wealth Management
Review

Wealth Management Dominion Securities

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Bryan Wealth Management Group of RBC Dominion Securities

Robert Bryan, FMA, CIM, FCSI
Vice-President, Branch Manager & Portfolio Manager
robert.bryan@rbc.com

Dean McKelvie, PFP
Associate Advisor
dean.mckelvie@rbc.com

Sherrie Parsons
Assistant
sherrie.parsons@rbc.com

Extended Wealth Management Team

Steve Wiffen
Estate Planning Specialist

Shannon Row-Ewing
Will & Estate Consultant

Albert Schoeley, CA
Financial Planning Specialist

RBC Dominion Securities
187 Ontario Street
Stratford, ON N5A 3H3
Phone: 519-271-4611
Toll-free: 1-800-265-4596

www.robertbryan.ca

World of opportunity

While I still like the prospects for the long-term U.S. bull market, I have been recommending for 2 years that investors expand their worldview. European equities are getting their groove back, so we're throttling back on U.S. equities in favour of more attractive opportunities elsewhere. Although U.S. stocks have outperformed in recent years, that has not always been the case. International stocks have surpassed U.S. stocks in 21 of the last 41 calendar years. International stocks are trading at a 46% discount (based on price-to-book ratios) compared to the long-term norm.

We anticipate returns for the S&P 500 and Dow Jones Industrial Average will be more muted in the next year and these indexes could experience a normal 5%-10% pullback – par for the course. At the same time, we see attractive opportunities in other markets, particularly in Europe.

We recently upgraded European equities to Overweight from Market Weight as political risks have receded and fundamentals have improved. Europe's prospects look brighter to us than they have for quite some time. We think it has the potential to reverse several years of underperformance.

Based on price-to-book ratios, international markets have been inexpensive relative to the U.S. market

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Escape velocity elusive

Another important motivation for our downgrade relates to U.S. economic momentum. Stubbornly low Treasury yields combined with a flatter yield curve and further declines in the U.S. dollar may be telling investors that something is lacking.

It now seems more likely U.S. GDP growth could persist at a subpar rate of about 2.2% rather than accelerate because pro-growth legislative catalysts have dimmed amid ongoing controversies related to President Trump and his campaign.

Subpar GDP growth of around 2% is not necessarily "bad" for the U.S. market. After all, the S&P 500 has surged more than 250% since 2009 during such a muddle-through phase. In 2018, the continuation of the subpar trend would likely mean "good" high single-digit S&P 500 earnings growth rather than "great" double-digit growth and a slow-moving Fed – that's not so bad and would support the continuation of the bull market.

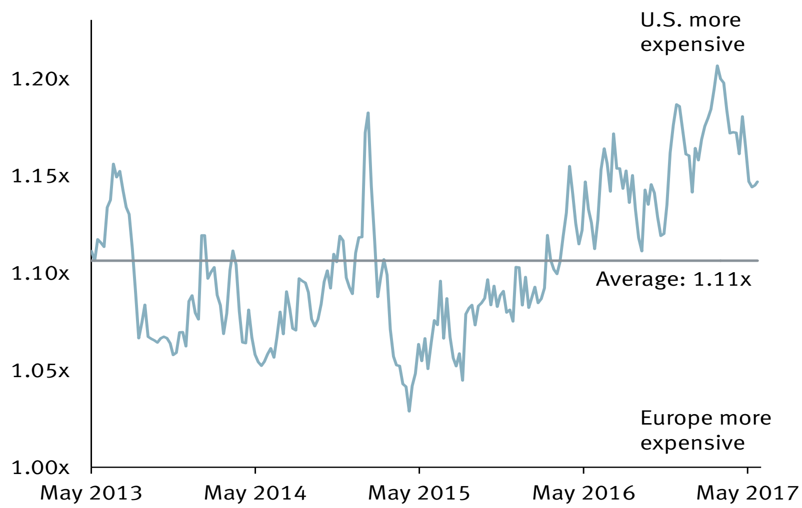
The valuation question

The main reason for the downgrade is there is less room for error with the S&P 500's elevated valuation at 21x trailing 12-month earnings and 17.9x the forward consensus estimate.

We concede price-to-earnings ratios could drift higher **given the bull market can persist as long as the U.S. avoids a recession and the Fed doesn't hike rates too high, too fast** – neither of which seem likely in the next 12-18 months, at least. RBC Capital Markets' work indicates multiples expand 60% of the time in the middle and late cycle periods. But the "easy" valuation expansion seems to be behind us.

Valuations show U.S. equities are more richly valued against their European peers

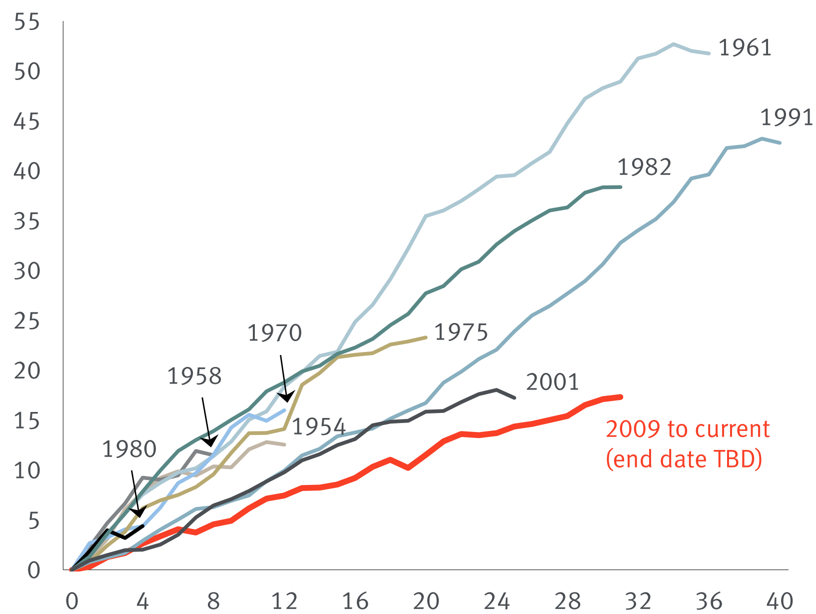
Forward P/E ratio of the S&P 500 against the STOXX Europe 600



Source - Bloomberg

This is a long-lasting, but slow-growing recovery

Percent U.S. cumulative GDP growth during each recovery cycle since WWII (dates represent beginning of recovery)



Source - RBC Wealth Management, St. Louis Federal Reserve; quarterly data through 4/28/17

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Two bulls are better than one

By no means should the shift be construed as a negative call on U.S. equities. We remain constructive on the market's long-term prospects. Companies' potential earnings power and leadership positions in multiple industries still warrant meaningful investments at the benchmark level.

We continue to believe the U.S. secular (long-term) bull market remains intact. None of our recession indicators are flashing red, or even yellow for that matter. This long period of GDP growth seems likely to persist, we just doubt it will accelerate to a normal 3% or so pace.

We think the U.S. market could cool off over the next 6-12 months rather than sprint at the fast pace of the past year, and more exposure to Europe is warranted.

It's time to pass the baton.

Financial literacy in Canada

Financial awareness and literacy is a topic that's increasingly coming to the forefront in Canada, but according to the Rand Youth Poll, a market research company, only 35% of parents talk to their kids about money. This is an unfortunate reality given the fact that helping younger family members develop financial literacy skills is one of the best methods to increase confidence and abilities in managing wealth. This in turn enables those who are planning to pass wealth down with an improved comfort level that intentions will be met and understood and that their wealth will be managed successfully into the future. The importance of this form of education takes on an even greater relevance given that findings from the 2014 Canadian Financial Capability Survey found that 8 out of 10 young Canadians are not confident in their financial knowledge, and that 60% of adults rate their financial knowledge as "fair" or "poor."

If you are interested in receiving a copy of the Spring or Fall editions of RBC Wealth Management Perspectives magazine with informative articles covering financial management tips and strategies for key age demographics, just let us know and we can send either electronic or hard copies.

Rob

Year at a Glance

YMCA STRONG KIDS CAMPAIGN

Our Strong Kids Campaign raised **$117,000** from donors to assist more than **2,400 children, youth and families.** We do indeed have a caring community!

1 in 3 people attending our YMCA do so with support from our Strong Kids Campaign.

60% of your support aided children and youth in our community.

Over **9,000 children, youth and adults** are engaged in Y programs and services.

26 children in child care were supported in times of great challenge.

56% of parents cite financial concerns as a major challenge to raising healthy children.

Strong Community – Strong Kids

As a long-time supporter for the YMCA Strong Kids Program, I always enjoy popping in to "shoot some hoops" with the campers. Maybe it is just me, but I feel like I still got the moves when playing against 5-8 year olds. I was honored to see my face on the cover of the YMCA Annual Report for 2016. Over 8 years, RBC Dominion Securities – Stratford has invested over $20,000 in the lives of children and youth in our community, through gifts to the Y's annual campaign and the RBC DS Charity Partners Golf tournament, which I chaired for last three years.

Welcome Sherrie Parsons, Assistant

Sherrie just joined our team in May 2017. She has been in the financial services industry for 14 years, most of which were spent at RBC banking in Stratford. She is excited to be part of the Bryan Wealth Management Group of RBC Dominion Securities. Sherrie lives in Stratford with her husband and two children.

Newsletter Editor:
Sherrie Parsons.
If you like what we're doing please tell a friend.
If you don't, please tell us:
sherrie.parsons@rbc.com

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