

PEARLSTEIN'S CORNER

FALL 2016

416.733.5257

mark.pearlstein@rbc.com



www.markpearlsteinwealthmanagement.com

**Mark Pearlstein**VP, Portfolio Manager &
Wealth Advisor

President Donald J. Trump? If ... Then Four Things to Know for Your Portfolio

It's impossible for me to ignore the 24/7 news cycle, especially when clients ask, who do you think is going to win the U.S. election? One reason is the polls continue to fluctuate (Exhibit 1). Mr. Trump as of writing has a 25% chance of winning; unlikely but not impossible. So without taking a position on the likelihood of a Donald Trump victory in this November's U.S. election beyond what the data tells us, it makes sense for Canadian Investors (and perhaps investors everywhere) to ask the question, if Donald Trump should win, what are the potential implications for my portfolio? The conclusion is the sum total of Mr. Trump's policy proposals would be positive for Canada and Canadian stocks, at least in the short term.

A high percentage of campaign policy talk can become law.

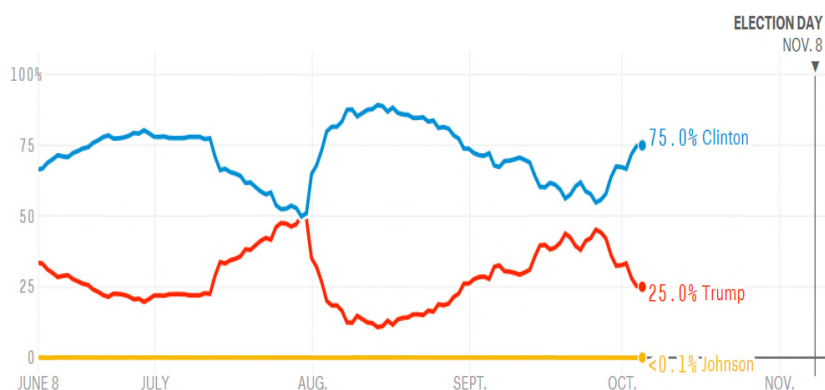
Political scientist Michael Krukones, in his book **Promises and Performance**, analyzed 70 years of presidential campaign promises. He found three-quarters of promises made on the campaign trail become the law of the land in some form or other. So, discounting any policy proposals aired during the campaign should be done with caution.

The U.S. economy remains a 'beast' (a.k.a) key driver for the Canadian economy.

Three-quarters of Canadian exports have the U.S. as their final destination. This brings home Pierre Trudeau's apt comment on having the U.S. as a neighbour and trading partner. He said over forty years ago that living next to the U.S. "is in some ways like sleeping with an elephant. No matter how friendly or temperate the beast, one is affected by every twitch and grunt."

Exhibit 1: Mr. Trump's odds of winning continues to fluctuate

Odds of winning U.S. presidential election based on polls and various inputs



Source: Fivethirtyeight.com; Through October 5, 2016

Trump's Policy proposals are a net positive for Canada and Canadian stocks, short term.

Lower tax rates (both personal and corporate), increased infrastructure spending, and a pro-oil platform should promote U.S. growth and flow through favourably to Canada and Canadian stocks. On the flip side, trade barriers with China and the U.S.'s NAFTA (North American Free Trade Agreement) partners could act as headwinds to growth and both directly and indirectly negatively impact Canada. There are longer-term concerns about budget deficits as Mr. Trump's policies would likely place a heavy burden on U.S. coffers. However, the near-term growth that could result from massive stimulus (should it get through Congress), makes worries about deficits a concern for another day.

Potential Winning and Losing Stock Sectors

The sectors that stand to benefit the most in the event of a Trump win would be Financials (higher long-term interest rates), Energy (better pipeline access and higher oil prices driven by increased U.S. demand) and Materials (stronger U.S. growth and the potential for infrastructure spending). Those sectors most negatively exposed would be Utilities, Telcos and Reits (potentially higher rates) and Consumer and Industrials (depending on the level of free trade rancor.)

No one can predict with certainty what happens in the lead up to the election, its outcome or its immediate aftermath. In addition, tweeting and cyber leaks will likely add to dynamic changes in polling numbers. On the other hand, good businesses with strong management teams and track records tend to weather very well the whims and follies of the political cycle on a longer term basis.

So what's in your portfolio? And, is it positioned not to be Trumped?. Rather than worry as the news cycle continues to spin, should you have any questions regarding your portfolio, connect with me and I'll be happy to answer them. Or, if you know a family member or friend who's concerned about how all the moving parts of this unusual election may impact their portfolio, please forward this on. I'd be happy to provide a second opinion. It's preferable to second-guessing, after the fact.

Mark Pearlstein | T. 416-733-5257 | F. 416-733-5250 | mark.pearlstein@rbc.com

RBC Wealth Management
Dominion Securities

There's Wealth in Our Approach.™



4 Things to Know About U.S. Withholding Tax

How we help you as Canadian investors limit the amount of U.S. withholding tax paid.

With Canada representing only a small percentage of the world's economy, more and more Canadians are investing in the U.S. to diversify their portfolios. As a result, a general understanding of the tax issues including withholding tax associated with such investments is important.

Foreign withholding tax

When you are investing in foreign securities, including those from the U.S., you may be subject to non-resident withholding tax. To determine the amount of withholding tax that you may have to pay on income from foreign investments, you must generally consider the following:

- Your country of residence (i.e. Canada) for tax purposes;
- The tax laws of the foreign country where your investment is issued;
- Whether a tax treaty exists between your country of residence (Canada) and the foreign country

Avoiding double taxation

Avoiding double taxation As a Canadian

resident, you need to report your worldwide income for tax purposes, which includes the gross amount of any foreign income you earn. You must report this income regardless of whether you receive a

tax slip for the income. Since you may also be subject to foreign withholding tax, the foreign income you earn may be subject to tax twice. In order to avoid this double taxation, Canadian tax laws generally allow you to claim a foreign tax credit on your Canadian income tax return for taxes paid to foreign jurisdictions. This includes both foreign withholding tax and any income taxes you pay if you have to file a foreign tax return. By claiming a foreign tax credit, you will generally reduce your Canadian taxes payable and may avoid double taxation. Note that Canada will only allow a foreign tax credit for taxes paid up to the reduced treaty rate (if applicable) even if a higher rate of tax was paid.

Reduced rate of withholding under the Canada-U.S. treaty

A reduced rate of withholding tax is generally available to Canadians under the Canada-U.S. Treaty. In order to qualify for the preferential withholding tax rate, you will need to provide proper documentation. This signed documentation is generally a valid IRS Form W-8BEN *Certificate*

U.S. interest and dividend income earned in a Canadian registered account

Under the Treaty, there is a special exemption from U.S. withholding tax on interest and dividend income that you earn from U.S. investments through a trust set up exclusively for the purpose of providing retirement income. These trusts include RRSPs, RRIFs, LIRAs, LIFs, LRIFs and Prescribed RRIFs. They do not include RESPs, TFSA's and RDSPs. The special exemption is not currently available in any other tax treaty that Canada has with other countries. Therefore, interest and

dividends you receive from investing in non-U.S. securities may be subject to foreign withholding tax. Certain types of U.S. investments you hold in an RRSP do not qualify for the Treaty exemption and will be subject to U.S. withholding tax. For example, if you hold a Canadian mutual fund or ETF that invests in the U.S. market in your RRSP/RRIF, there will be U.S. withholding tax on the dividends that you cannot recover.

This article assumes that you are an individual who is a resident of Canada for tax purposes (not a corporation, non-taxable organization or trust) and are not a U.S. citizen or green card holder.

Should you have any questions on this points or are interested in receiving a summary of common U.S. investments and related U.S. withholding taxes, please connect with Sam Kim, my associate advisor.



RBC Wealth Management
Dominion Securities

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness.

This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. In Quebec, financial planning services are provided by RBC Wealth Management Financial Services Inc. which is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. *Registered trademarks of Royal Bank of Canada. Used under license. © 2015 Royal Bank of Canada. All rights reserved.