RBC Dominion Securities Inc.

Cooper Wealth Management

Wealth Management
Dominion Securities

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"Insanity is doing the same thing over and over again and expecting a different result." – Albert Einstein

Fed stays the course

The U.S. Federal Reserve began 2016 by announcing plans for four 0.25% interest rate hikes. Their plan was to regain some monetary policy flexibility and perhaps stimulate some loan and bond issuance volume growth. Many corporations did issue bonds but either kept the cash, funded takeovers, bought back stock or merely refinanced at lower rates. Unfortunately, nowhere near enough money made its way to the real U.S. economy, and U.S. GDP growth has remained lackluster. This result, coupled with the Eurozone's negative interest rate policy and $80 billion per month bond buying program has allowed the Fed only one rate increase, and U.S. bond yields are actually lower.

In November 2015, the 10-year U.S. Treasury yielded 2.34% vs. 1.69% now. This is not the result the Fed was hoping to achieve. In our view, U.S. bond yields will remain under pressure as long as the Eurozone continues its Quantitative Easing program, which is currently set to proceed through 2017. With the Bank of Canada Commodity Futures Index at 2007 levels and the StatsCan Raw Product Price Index for agricultural commodities more than 20% below 2007 prices, it seems unlikely that inflation pressures will help either. Only time will tell how long the Fed will continue to pursue this course of action without the U.S. government stepping up its fiscal policy spending to use up some of the excess capital in the system.

The other half of the Fed's actions in the markets is short-term reactions. Every time the Fed hints at raising interest rates, the stock and bond markets sell off, only to recover if nothing happens. We saw this at the start of the year and again just recently. The curious point is that the Fed would only raise rates if it thought the economy was strong and, therefore, equity values should rise as investors should take comfort in a stronger economy. Year to date, the stock market has performed well, up 11.6% for the TSX Composite and up 4% for the Dow Jones Industrial Index, with decent corporate profits, a rally in oil, and very low volatility. We expect all these trends to continue, given the Fed's inability to raise interest rates, and if new oil drilling activity stays low.

The only short-term concern on the horizon is the U.S. Presidential election. In the event of a Trump win, there would likely be a short-term reactionary selloff similar to the Brexit vote. It is important to remember that the President has to work with the Congress and the Senate in order to pass legislation, and it is highly unlikely that any of Mr. Trump's more radical campaign topics like the border wall with Mexico would ever be realized. We would use any such selloff as a buying opportunity.

As we enter the last quarter of 2016, we will continue to focus on generating cash flow via our covered call program. We will also be conducting year-end portfolio reviews and seek to take any available losses to offset gains. As always if you have any questions or concerns, or would like to have a meeting or financial plan done, please give us a call.

Yours truly,

Walter Harmidarow and the
Cooper Wealth Management Team
of RBC Dominion Securities

Cottage succession planning

Whether you call it a cottage, chalet, camp or cabin, it's your family's special place to relax and enjoy the great outdoors. And for many families, it's a place filled with happy memories that's been in the family for generations, and will be for generations to come.

But keeping the cottage in the family from one generation to the next isn't always as easy as it might seem. There are many issues to consider, including how the taxes will be paid.

Consider ways to reduce taxes

When you pass along your cottage, you are also passing along a potentially large tax bill, which your beneficiaries may or may not be able to afford. Depending on their financial situation, your beneficiaries may be forced to sell the family cottage simply to cover the taxes. There are two main types of tax to consider – capital gains taxes and probate taxes.

Capital gains taxes

If your cottage has been in the family for many years, its value has probably increased dramatically. The property your family bought for a few thousand dollars might be worth a few hundred thousand dollars today. Even property bought within your lifetime might have experienced this type of exponential growth.

This increase in value can result in a very large, taxable capital gain, which is triggered when you pass along the property to anyone other than your spouse, including your children. However, there are several ways you can address this tax bill, and even reduce or defer it.

Calculating capital gains tax

When you pass along your cottage to anyone other than your spouse, the government views it as having been sold at current market value – a "deemed disposition." The capital gain on this deemed disposition may be taxable if you are not able to or choose not to claim a principal residence exemption. The following example shows how there can be a $68,512.50 tax bill in 2013 on a cottage purchased for only $5,500 in 1981.

Deemed disposition in 2013: $310,000
Minus purchase price in 1981: $5,500
Total capital gain: $304,500
Capital gains taxable (50% of total): $152,250
Taxes payable at 45% marginal rate: $68,512.50

Gift the property ahead of time

Simply giving your cottage to your intended beneficiaries ahead of time is one way to reduce future taxes at death. If you expect your cottage to significantly increase in value, consider giving it to your beneficiaries sooner rather than later.

Assuming property values will always rise, this will trigger a taxable capital gain from the appreciation of the property to date. The tax is payable in the year the gift is made. However, it should be a much smaller capital gain than the one that would be triggered in the future, assuming the property increases significantly in value. Any future gains will be taxed in the names of your beneficiaries, when they sell it or give it away at a much later date, and won't be included in your final tax return when your estate is settled.

Cover the tax bill with an insurance policy

The most common way for property to be passed on to the next generation is through a bequest made in

your Will. When your property is bequeathed to anyone other than your spouse, it triggers a taxable capital gain, which your beneficiaries may not be able to afford. However, you can cover this tax bill through a life insurance policy, which provides a sum equal to the expected tax bill when your estate is settled.

A guide to your questions on CRM2

Under new industry regulation—Client Relationship Model, Phase 2 (CRM2)—all investment dealers in Canada will provide two new detailed reports to clients regarding their account performance and fees by early 2017.

This is good news for investors and our industry in general because it will result in more information and enhanced transparency for investors. For some, it may be a level of detail on the performance and fees of their portfolios that they have not seen before. To help answer any questions you may have about these new reports, we have prepared some straightforward factsheets with helpful answers to questions such as:

"Why am I getting all this paper?"

The regulators have requested that you receive two separate reports for each and every account that you hold – one Annual Performance Report and one Statement of Charges and Compensation. Clients with multiple accounts will receive multiple reports.

"Are these new fees I'm paying?"

It is important to know that there is no change to the costs that you are paying as a result of these new reports. They are meant to provide a detailed and transparent disclosure of the cost of investments.

"Why don't my returns match up?"

If the performance return shown on your new report doesn't match up with your existing account statement, it may be because the new performance reports are required to use the "money-weighted rate of return" calculation method as opposed to the "time-weighted rate of return" calculation method which has been widely used as the industry standard for reporting performance in the past. Both are valid measures of performance, but use different calculation methods to generate your rate of return.

"What are these trailing commissions I'm paying?"

A trailing commission can be included as a component of the mutual fund MER fee for some mutual funds. In these instances, fund companies pay ongoing fees called trailing commissions, to the firm for which your advisor works—in our case RBC Dominion Securities. The trailing commission pays for value-added activities that your advisor and their firm provides with respect to the mutual fund including: the infrastructure required of your advisor's firm to support the distribution, sales and servicing of the mutual fund, monitoring and portfolio re-balancing, and ongoing and regulatory client communications and activities.

"What do my investment costs pay for?"

There are a host of benefits and functions that are covered by the costs that you pay for your investment accounts. The advice and service provided to you on a

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What is CRM2?

Answering your questions about new investment industry regulations coming into effect

Providing investors with greater transparency about the cost and performance of their accounts is the driving force behind new industry-wide regulations, known as the Client Relationship Model II (CRM2). Top of mind for investors is how CRM2 will affect them as the regulatory changes are implemented over the coming months.

What is CRM2?

- New industry-wide regulations that improve how the financial industry reports and discloses information to investors
- Changes are now being phased in, with full implementation at RBC Dominion Securities by early 2017. It includes two new reports: (1) account costs and (2) account performance.
- Applies to all investment dealers and advisors in Canada, including:
  - Investment dealers regulated by the Investment Industry Regulatory Organization of Canada (IIROC), such as RBC Dominion Securities
  - Firms regulated by the Mutual Fund Dealers Association (MFDA), such as the respective mutual fund distributor of each of the major banks
  - Investment counselling firms regulated by provincial securities commissions in Canada

Why is CRM2 being implemented?

- CRM2 is part of a global shift towards increased disclosure and transparency in the investment industry
- To provide investors more details on the fees and performance of their investment accounts
- To improve investors' ability to assess how they are progressing towards their financial goals

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For more information on CRM2 basics, ask for our "What is CRM2?" factsheet.

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day-to-day basis, the protection and privacy of your information and assets, the ability to access accounts online, capital markets research, back-office transaction processing, custody statements, tax reporting, risk controls and regulatory compliance to name a few. We are focused on achieving the best results for your wealth management experience and the infrastructure we have in place provides a premier offering to help you realize your financial goals.

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Time-weighted vs. money-weighted rates of return

Understanding the differences

While there are a number of ways to calculate an investment rate of return, the time-weighted rate of return calculation is the more common method used in the investment industry. However, by early 2017, all investors will receive an annual money-weighted rate of return, included with a new annual investment performance report. Both are valid and acceptable calculation methods, but each has different uses and can be appropriate in different circumstances.

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Introduction

In new annual performance reports that investors will receive by early 2017, rates of return will reflect the mathematical money-weighted calculation, versus the more commonly used time-weighted calculation. The new regulatory requirement according to Canadians investment regulators is that all investors in Canada will receive this new report with the money-weighted rate of return.

This article is a general and non-mathematical explanation of the differences between money-weighted and time-weighted rates of return, and provides examples of when you may see a difference in the rate of return for a given portfolio over the same time period.

Time-weighted

The time-weighted calculation is the financial industry and RBC Dominion Securities standard method to measure performance. For example, the methods most commonly used to calculate the performance of financial market indices and mutual funds are types of time-weighted calculation methods.

A quick summary

- The timing of cash flows that you direct, such as contributions (which includes transfers in-kind) and withdrawals, can affect your portfolio's rate of return
- Time-weighted rate of return calculation **does not include** the effect of these cash flows
- Money-weighted rate of return **includes** the effect of these cash flows
- If there are no cash flows, the two methods will produce the same rate of return

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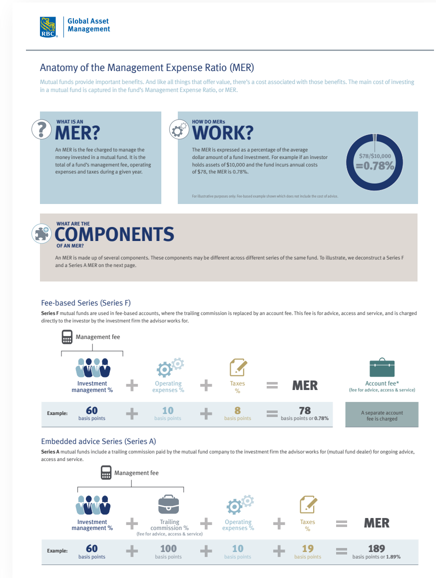
For more information, ask for our factsheet "Time-weighted vs. money-weighted rates of return."



Global Asset Management

Anatomy of the Management Expense Ratio (MER)

Mutual funds provide important benefits. And like all things that offer value, there's a cost associated with those benefits. The main cost of investing in a mutual fund is captured in the fund's Management Expense Ratio, or MER.

WHAT IS AN MER?

An MER is the fee charged to manage the money invested in a mutual fund. It is the total of a fund's management fee, operating expenses and taxes during a given year.

HOW DO MERs WORK?

The MER is expressed as a percentage of the average dollar amount of a fund investment. For example if an investor holds assets of $10,000 and the fund incurs annual costs of $78, the MER is 0.78%.

$78/$10,000 =0.78%

For illustrative purposes only: Fee-based example shown which does not include the cost of advice.

WHAT ARE THE COMPONENTS OF AN MER?

An MER is made up of several components. These components may be different across different series of the same fund. To illustrate, we deconstruct a Series F and a Series A MER on the next page.

Fee-based Series (Series F)

Series F mutual funds are used in fee-based accounts, where the trailing commission is replaced by an account fee. This fee is for advice, access and service, and is charged directly to the investor by the investment firm the advisor works for.

Management fee

Investment management % + Operating expenses % + Taxes % = MER

Account fee* (fee for advice, access & service)

Example: 60 basis points + 10 basis points + 8 basis points = 78 basis points or 0.78%

A separate account fee is charged

Embedded advice Series (Series A)

Series A mutual funds include a trailing commission paid by the mutual fund company to the investment firm the advisor works for (mutual fund dealer) for ongoing advice, access and service.

Management fee

Investment management % + Trailing commission % (fee for advice, access & service) + Operating expenses % + Taxes % = MER

Example: 60 basis points + 100 basis points + 10 basis points + 19 basis points = 189 basis points or 1.89%

For more information, ask for our factsheet "Anatomy of the Management Expense Ratio" or "Understanding the costs of mutual fund investing."

Wealth Management Dominion Securities

What's included in your relationship with us?

Our commitment to providing value

We are pleased to offer you a wide range of investment and wealth management services, many of which are complimentary to you as a valued client.

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Discovery

- Explore your current financial situation, portfolio and investment objectives
- Establish your investment and wealth management goals
- Determine your tolerance for risk and market fluctuation

Strategy

- Develop your individual Investment Policy Statement
- Build customized portfolios designed to meet your investment goals
- Establish your needs for tax, estate, insurance and charitable gift planning
- Provide research, commentary and information on specific holdings, markets or economies
- Collaborate with your existing professional advisors, such as lawyers and accountants, to integrate your investment plans
- Introduce, as appropriate, a full suite of services from our RBC partners

Enhanced wealth management services

- Benefit from the expertise of our RBC Wealth Management Services team, which includes specialists in financial planning, estate law and taxation
- Comprehensive financial planning (Compass Financial Plan)
- Family Snapshot™ Wealth Management Opportunities Report
- Will and estate consulting
- Insurance-based wealth enhancement assessment
- Business succession planning
- Corporate re-organization advice
- Family wealth management

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For more information, please contact me and we can discuss. We can start with our factsheet "What's included in your relationship with us."

Thank you

It has been our pleasure to help you with your investment needs over the years, and we'd like to take this opportunity to personally thank you for your support.

We especially want to thank those of you who have been kind enough to refer your friends and family to us. Our business is still growing and we continue to welcome the opportunity to meet new people.

Once again, thank you for your support and we look forward to serving your future investment needs.

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