Portfolio Advisor

Wealth Management
Dominion Securities

October 2016

Davidson and Criswick Wealth Management of RBC Dominion Securities

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Market commentary

We have raised global equities to in-line (benchmark) from modestly underweight mainly because Europe's Brexit-related challenges have diminished for the time being and the U.S. and global economic expansions should persist in coming quarters.

While Europe remains vulnerable to periodic episodes of banking sector stress, earnings missteps and political crosscurrents, we believe stability in other regions can enable globally oriented portfolios to deliver worthwhile returns for the next 12 months, at least.

We continue to favour North America. If crude oil pushes higher, as we anticipate, Canada's TSX should outperform. U.S. earnings growth should turn positive in Q3 and accelerate in Q4. In Asia, valuations are attractive in light of China's improved economic data and the Bank of Japan's persistently dovish monetary policies.

Fixed income

Investors should continue to position fixed income portfolios for a "lower for longer" interest rate environment. While global growth should persist, it's not likely to become overheated any time soon, which should keep major central banks at bay.

Regardless of whether the U.S. Federal Reserve raises interest rates in December or 2017, we believe it will continue to pursue a slow and shallow path toward higher rates.

Furthermore, the Bank of England seems set to loosen policy in coming months, and the European Central Bank and Bank of Japan should remain highly accommodative throughout 2017 and beyond.

Opportunities in corporate credit have become even more limited as yield spreads have tightened further. Select 5- to 7-year U.S. investment-grade corporates are attractive; however, we would wait for better value farther along the curve, in high yield, or in other regions.

To learn more, please ask us for the latest issue of Global Insight.

RBC Wealth Management
Global Portfolio Advisory Group

House rich, retirement poor

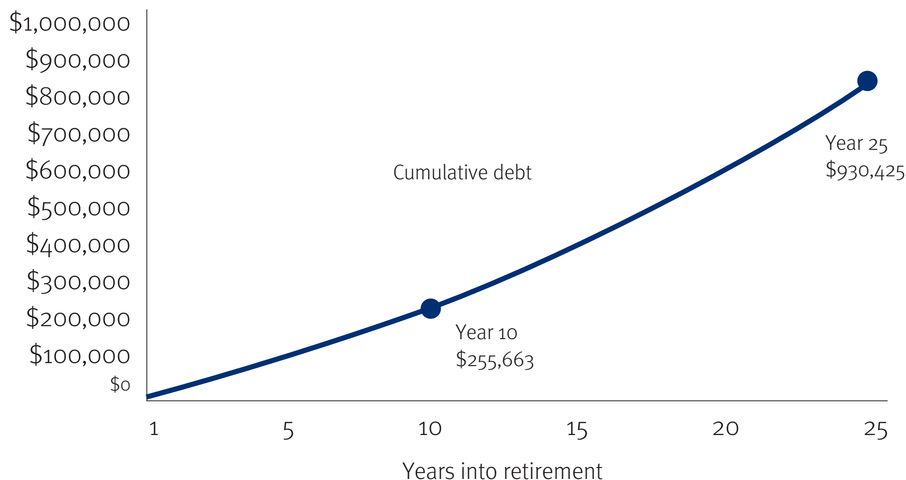
Why your family home is not a retirement plan

Thanks to a long-term uptrend in several of Canada's real estate markets, a number of Canadians now find themselves with a very favourable balance sheet – a relatively large asset on one side, and modest debt on the other.

As a result, a growing number of homeowners feel that their home might eventually be enough of an asset to fund a comfortable retirement. With this in mind, many are foregoing other types of savings in favour of a plan to one day use their home equity to generate retirement income.

Borrowing $20,000 per year with no payback

2% income inflation, 3% interest costs



Source: RBC Dominion Securities. Income was adjusted monthly to reflect annual inflation of 2%. Income was withdrawn at month beginning, interest was paid at month-end based on 3% rate divided by 12. All income withdrawals and interest charges were accumulated as debt.

Using home equity in retirement: Caution is warranted

There's no reason a family home can't play a role in a retirement plan, such as through a well-thought-out-plan to downsize. However, counting on it to provide regular income through the use of home equity debt does come with potential risks.

Is there a plan to pay it back?

In retirement, limited income could make it difficult to pay back income borrowed from your home equity, unless it can come from elsewhere in your estate. However, without diversifying your assets, the only option might be to accumulate debt.

Longevity risk

It may seem reasonable to borrow income against a million-dollar, mortgage-free home at age 65. However, retirement can easily last more than 25 years, and as shown in the chart, debt can accumulate quickly.

Real estate markets can be volatile

Canadian real estate has been through a number of downturns and periods of rising rates. Homeowners should consider the effects on available equity in a declining real estate market. Further, with today's low rates, even a modest rate increase could increase carrying costs significantly.

How can you diversify your retirement plan?

While building home equity is a great start, Canadians can choose from a number of savings and investment vehicles that can offer significant tax benefits today, and help diversify their asset base and income sources come retirement.

Over the long term, Canadians have also been fortunate to have had a relatively stable economy that, in addition to real estate, has provided multiple opportunities to diversify and build wealth.

Contact us today to discuss how to benefit from diversifying your retirement plan.

Strong long-term returns across multiple Canadian asset classes

	Real estate	Cash	Bonds	Stocks
20-year rate of return	5.8%	2.7%	6.3%	7.6%
Key diversification benefits	• Price stability • A tangible asset	• Liquidity	• Stable income • Capital preservation	• Inflation protection • Income growth potential

Source: Housing data, Canadian national average, compiled by RBC Global Asset Management Inc. from Canadian Real Estate Association (CREA). RBC Capital Markets, cash represented by Canada 91-Day T-Bill Return, bonds represented by FTSE/TMX Canadian Universe Bond Index, stocks represented by S&P/TSX Composite Index Total Return. 20-year annualized returns as of December 31, 2015.

Why own bonds?

A closer look at the key role bonds can play even with today's low interest rates

With negative interest rates now prevailing in a handful of countries, and some corporations borrowing for close to zero per cent, the income available from bonds continued to drift downwards in 2016.

While it's natural for investors to question the value of owning bonds in this environment, the reasons to hold bonds stretch beyond income. Bonds can offer important portfolio and diversification benefits, and despite today's low interest rates, there's no reason to think that will change.

Portfolio stability

Regardless of whether interest rates are rising or falling, or equity markets are up or down, bonds can provide investors with multiple layers of stability:

1. **Steady cash flow** – While the income from bonds today is modest, bonds continue to provide a stable income stream.
2. **Capital preservation** – Through volatile equity markets, bonds can act as a stabilizer in diversified portfolios.
3. **Liquidity** – For those holding individual bonds, the return of principal at maturity provides a natural source of liquidity.

A diversified source of income, and more portfolio stability

Beyond the Canadian bond market, a wide variety of bond strategies and asset classes are available to investors, all of which can provide unique diversification benefits:

1. **Bond ladders** provide excellent liquidity, a transparent cash-flow stream and can minimize interest rate risk. A bond ladder is a portfolio of bonds that mature at regular intervals. The maturing funds can be re-allocated to the ladder, or used to rebalance your overall portfolio.
2. **U.S. and global bonds** can help lower portfolio volatility through geographic and currency diversification, and offer a wide range of corporate opportunities that can help boost income.
3. **High-yield bonds** can boost income, have traditionally lowered overall bond portfolio volatility and have often provided portfolio stability during periods of rising government interest rates. However, high-yield bonds do come with higher risk than most government or high-quality corporate bonds.

Stability, steady income and diversification

The purpose of bonds is to provide investors with portfolio stability, diversified income, timely liquidity and capital preservation through challenging markets. These unique qualities have stood the test of time, and despite the modest income they offer today, bonds continue to be an important source of portfolio diversification.

Capital preservation through a challenging period for equity markets

Looking back to 2008-09, a period in which Canadian equities were down significantly, an equity investor might have seen their portfolio down by close to half as the market bottomed.

On the other hand, a more balanced investor, holding a diversified equity and bond portfolio, would likely have been in a position to take advantage of lower equity prices, or able to participate in a very timely opportunity to rebalance their long-term asset allocation.

Speak to us to learn more about the role of bonds in your portfolio.

A new model for a more informed investor

There's a new model coming in 2017 – but it's not a new luxury car or mobile phone. It's a new model for how Canadian investment companies keep you informed about your investment fees and performance.

It's called the Client Relationship Model II, or CRM2. Introduced by the regulatory body overseeing the Canadian investment industry, CRM2 is all about helping you become a more informed investor.

With CRM2, you will be ...

... more informed about costs

Starting in 2017, you will receive an annual report including more detail about your account fees. Your transaction confirmations will also include more detail. But it's important to be aware that more information about fees doesn't mean more fees. You're just getting a more detailed breakdown about the fees you pay for the services you receive.

... more informed about performance

Currently, most investors receive performance reports based on their "time-weighted rate of return." This is one of the more common methods of measuring investment performance, and is typically used by mutual funds, exchange traded funds (ETFs) and industry benchmarks. The time-weighted return helps you assess your performance against these other investments or benchmarks.

With CRM2 coming into effect, you will also receive a "personal" (or "money-weighted") rate of return on certain statements starting in 2017. Unlike the time-weighted return, the money-weighted return factors in deposits and withdrawals in your portfolio. As a result, it helps you assess your performance against your personal financial plans.

Receiving two different rates of return for the same investment portfolio over the same time period might seem a little confusing. However, they're just slightly different ways of calculating your rate of return, each with specific advantages, and in no way affect the actual value of your portfolio.

If you (or anyone you know) have any questions about CRM2, please contact us today for an open discussion.

It's important to be aware that more information about fees doesn't mean more fees.

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