Portfolio Advisor

Wealth Management
Dominion Securities

December 2019

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Market commentary

Equities extended gains, as global economic data surprised on the upside. More recently, the main concerns for the market seem to have faded, with the mood music on the U.S.-China trade war improving, the price of oil retreating, and the possibility of an imminent no-deal Brexit receding. These are welcome developments, but we are mindful that this progress could reverse abruptly, while the implications of the impeachment process in the U.S. may cause volatility to return.

We would continue to focus on the two key points that matter most: the global economy and corporate earnings. Economic growth remains sufficient in most regions to enable companies to grow profits and for stocks to move forward, in our view. We maintain our Market Weight stance in global equities, though we would nevertheless start to prepare portfolios at the margin for when times may be more challenging.

Fixed income

The Fed's 25 basis point (bps) rate cut in September should be followed by one more in 2019, market expectations indicate a 72 percent chance of a rate cut at the December meeting of the Federal Open Market Committee. Despite some improvement in U.S. economic data, trade and global growth concerns will continue to drive Fed and other global central bank policy actions. The market volatility, which produced an approximate 70 bps roundtrip swing in 10-year Treasury yields last month, will likely continue, but we see lower yields and flat/inverted curves in the months ahead.

We maintain our Market Weight recommendation for global fixed income. Even though we've seen a slight improvement in risk sentiment, late-cycle economic concerns remain, and investors are best served by a continued focus on quality, in our opinion. And with the likelihood of rates drifting even lower in the future, reinvestment risk remains a concern.

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

RBC Wealth Management
Global Portfolio Advisory Group

Second-half comeback: It's never too late to achieve your retirement goals

We've all seen or heard of that football classic "comeback game": the team down by a seemingly insurmountable score with only one or two quarters left in the game. Yet, despite the odds stacked against them, little by little, one field goal and touchdown at a time, leveraging an intelligent strategy, strong play execution, adherence to fundamentals, unwavering discipline and calm-headed coaching, they gradually chip away at the deficit to bring home the victory in the dying seconds of the game.

Many Canadians facing a looming retirement date find themselves in need of their own comeback to achieve their retirement goals. A survey of pre-retiree Canadians over 50 showed that 22% have nothing saved for retirement, while 40% worry they will not have enough to maintain their lifestyle in retirement.* Even wealthier Canadians worry they may not have enough to achieve their desired retirement lifestyle.**

For those who are in "the second half of the game" and haven't started saving – or are not saving enough – towards their retirement goal, even attempting to achieve that goal might seem like an insurmountable and futile effort.

Start your comeback today

But it is never too late to start investing, even if you only have 15 – or even 10 – years until your targeted retirement date or age.

Here are five key steps to take to get across your retirement "goal line":

1. Have a financial plan

A goal without a plan is a dream, so it's critical to map out where you are today and where you need to get to. Once you've done that, you know realistically where you stand and what income you really need in retirement (versus what you might think you want). Then you can start building on the savings you need to achieve your goals.

2. Execute your plan

Many people have well-structured financial and investment plans, but fail to act on them. Follow through on your plans – whether that requires reducing spending, finding ways to enhance income, eliminating debt, or investing more regularly.

3. Stick to the fundamentals

Great comebacks are based on making the most of proven strengths, such as a well-diversified portfolio with quality assets that are purchased steadily and consistently over time.

4. Stay disciplined

When the clock is running down and desperation sets in, it's tempting to send a "Hail Mary" pass into the end zone. But with the right plan you don't need to "go for broke" with some high-risk strategy. Being disciplined – and patient – is critical to success.

5. Listen to your financial "coach"

Like a good coach, your advisor is focused on helping you achieve your financial goals. They can help establish your financial and investment plans, revising and refreshing them as required, and keep you focused on coming back to win your retirement game.

Please contact us to learn more.

*Ontario Securities Commission, Retirement Readiness: Canadians 50+ (September 2016).
**New Wealth Rising survey conducted by The Economist Intelligence Unit, commissioned by RBC Wealth Management (September 2019).

Crazy Canucks

Canadians love their homegrown companies, from Tim Hortons to Canadian Tire to Roots, among many others. And Canadian companies can make smart investments, too, when those kinds of investments are appropriate for your portfolio. But many of us don't realize the extent to which we are already invested in domestic assets. This can mean that investors are losing out on the benefits and opportunities that global diversification can provide.

There's no place like home

The average Canadian has more than 90% of their wealth tied to Canada, as follows:

Real estate	46.1%
Domestic funds, stocks, and bonds	13.7%
Pensions, insurance, CPP/QPP	16.2%
Cash and GICs	10.3%
Private mortgages and businesses	5.7%

(Source: Investor Economics' Household Balance Sheet Report 2018. Data as of Dec. 31, 2017.)

Within that context, it's not hard to see how much opportunity there is to diversify our wealth across the world. And what a great big world it is, with Canada's share of global GDP amounting to only 1.4%.

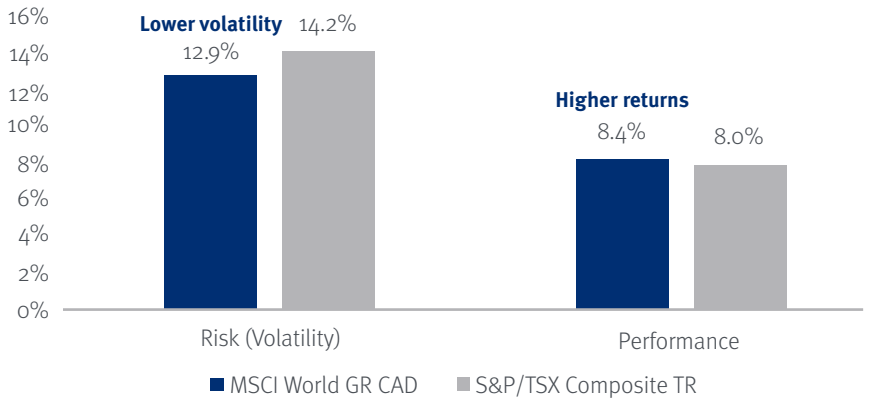
Polar portfolio vortex

When we consider our investment portfolios, many Canadians are concentrated in domestic holdings: most industry figures put the Canadian content of the average portfolio at approximately 60%*. And that may be appropriate, given their objectives. But on just the equity side of the equation, Canada accounts for less than 3% of total global market capitalization**, meaning domestic investors who are crazy about Canuck equities are missing out on more than 97% of available equity investment opportunities, including many industry-leading companies.

As well, Canada's benchmark S&P/TSX Composite Index is heavily weighted in just three sectors, with Financials (32%), Energy (16%) and Materials (11%) accounting for approximately 60% of the entire index. This greatly reduces sector diversification opportunities relative to indexes like the U.S.-based S&P 500 Index, which provides far greater diversification opportunities in such innovative and high-growth areas as Health Care, Consumer Discetionary and Technology.

Why invest globally? Lower volatility and higher return potential

Global equities including Canada vs. Canadian equities only



Source: RBC GAM, Morningstar, as of April 1, 1986 to April 30, 2019. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower.

Only invested in Canada, eh? Pity!

Beyond missing out on a wealth of opportunities for investment beyond our borders, why does it matter if Canadians stick so close to home with their portfolios? Because geographic diversification has been shown to enhance returns while actually reducing risk (see chart). So, when one region is underperforming, another could be overperforming, and this has been shown to smooth out returns over time. And, as the chart above shows, this diversification helps investors achieve more stable returns over time, while reducing the volatility of their portfolios.

The world at your finger tips

Fortunately, Canadian investors today have no restrictions on foreign investment ownership in their accounts, like they once did in their RRSPs. As well, the ease at which an investor can achieve foreign exposure to equities, fixed income or even a globally diversified portfolio is easier – and more cost-effective – than ever. And, again, it may be appropriate, given an investor's risk tolerance and investment preferences, to have their portfolio Canadian focused. But, given the vast scope of investments available around the world, and the potential to enhance returns while reducing risk, looking beyond Canada's borders for investment opportunities isn't so crazy after all.

Please contact us to learn more.

*Bloomberg, as of June 19, 2019. Percentage of world market capitalization of listed domestic companies.
**International Monetary Fund (IMF), as of December 2014.

Bringing life insurance to life

A millennial term for you, FOMO or Fear of Missing Out. If you're feeling a little FOMO about the eventual windfall from your life insurance, don't fret, Insured Retirement Plans (IRPs) allow you to benefit from your own life insurance policy while you're still around.

An IRP is a retirement income strategy that uses tax-exempt life insurance to build wealth, provide tax-free cash flow, and protect the financial security of your loved ones. It's especially useful if you're already maxing out your TFSAs and RRSPs, or if you're a business owner with little to no RRSP room.

Top three benefits

1. **Life insurance:** peace of mind knowing your loved ones will be taken care of with a tax-exempt payout.

2. **Tax-free accumulation:** a portion of your deposit into the policy pays for the cost of the coverage, while the rest is invested on a tax-deferred basis – called the cash value. Depending on the amount of insurance you purchase, you have the potential to build a great deal of equity within the policy.

3. **Retirement income:** the accumulated value in your life insurance policy is a potential source of income. You can use the cash value as collateral to obtain tax-free loans from a bank or trust company, which are paid back with the eventual life insurance benefit.

How it works

Imagine Taylor and Alex are 45 years old and don't need supplementary retirement income for another 20 years. They currently maximize their RRSPs and TFSAs, are in the highest marginal tax bracket and want to leave an estate for their children.

1. They apply for and purchase a $2.0 million permanent tax-exempt life insurance policy that allows them to make annual deposits of $50,000 for 10 years. These deposits satisfy their premium payments and the remainder accumulates tax-free.

2. After 20 years, at the age of 65, there is $608,000 of cash value in the plan, assuming a 3.5% tax-exempt growth rate. To supplement their retirement income, Alex and Taylor secure a loan from a bank by assigning their policy as collateral. Assuming a 5.5% loan rate, they expect to receive a total of $50,000 per year of tax-free capital for the next 10 years. Loan interest is simply added to the loan balance and will be repaid upon their death using some of the insurance proceeds.

3. After 40 years, the cash value is worth $2.2 million, and Taylor and Alex have recently passed on, leaving a death benefit of $3.1 million. Their outstanding loan of $1.2 million is repaid from the $3.1 million total.

4. The rest of the benefit, $1.9 million, is paid to the beneficiaries of their policy, tax-free.

All in all, Taylor and Alex deposited $500,000, received $500,000 tax-free and left $1.9 million tax-free to their children.

Deposited a total of $500,000

Received a total of $500,000 tax-free income

Beneficiaries receive a total of $1.9 million tax-free upon death

This example is based on a joint-last-to-die basis universal life policy values provided by Manulife Insurance, as of June 26, 2018. The actual amounts will vary by policy and from person to person. These values are for illustration purposes only and are not guaranteed. Rates are based on assumptions.

For more information on IRPs, please contact us today.

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