During the first quarter of 2016, capital markets were rather unsettled, with stocks declining through January and February before recovering somewhat in March. While markets were initially affected by the familiar themes of slow global growth, low commodity prices and uncertainty over monetary policy, investors appeared to gain confidence as the quarter progressed.

Here at home, Canada’s S&P/TSX Composite Index offered a bright spot among global markets. The index gained 4.5% including dividends, as oil rallied strongly into the end of the quarter after dipping to multi-year lows in mid-February. The S&P 500 Index in the U.S. posted a modest gain of 1.4%, which translated to a loss of 5.0% in Canadian dollars as the Loonie appreciated 6.7% in value relative to its U.S. counterpart.

The MSCI World Index finished the quarter relatively flat with a return of -0.2% in U.S. dollars (or -6.5% in Canadian dollars), with results for local markets varying widely. Stock markets in Europe, Japan and China, for example, were mostly down for the quarter despite central banks’ efforts to boost liquidity and keep borrowing rates low, while others including Taiwan and South Korea made small gains. Stock markets in Latin American countries such as Brazil, among the worst performers in 2015, rallied from their lows to post strong increases.
Meanwhile, bond markets finished the first quarter with mainly positive results. In the U.S., economic data remained encouraging, with strong employment numbers, moderate inflation and a rebounding housing sector. But after announcing its first interest rate increase in nearly a decade in December, the U.S. Federal Reserve sounded a cautious note and left rates unchanged in the first quarter, citing risks including sluggish global growth. Overseas, several other central banks introduced measures to stimulate their economies during the quarter, including negative interest rates by the Bank of Japan, key rate cuts by the European Central Bank and policies to encourage lending in China. These actions, along with muted inflation, helped to drive yields for longer-maturity government bonds lower throughout the period.

The Bank of Canada also left rates unchanged in the first quarter as the Canadian economy defied expectations to post a broad-based 0.6% GDP increase in January, its best month since mid-2013. The FTSE TMX Canada Universe Bond Index, a measure of Canadian government and investment-grade corporate bonds, returned 1.4% for the three-month period.

Overall, global capital markets have exhibited a higher level of volatility over the past several quarters, and this may continue to be the case during 2016. Nevertheless, the prevailing conditions support the gradual expansion of the global economy and business activity.

Although it may be tempting to react during more turbulent periods, history demonstrates that focusing on long-term fundamentals and staying rational is the best course of action.

It's Time to Revisit Some Core Investing Beliefs

I think it's a good idea to review and reinforce some of the core investing beliefs that we often seem to lose sight of. Let's face it, the things that drive our day to day thinking about investing often do little to enhance returns, and indeed they likely hamper them.

For example, investors are easily sidetracked by unreliable market opinions and predictions. To make matters worse, the “experts” who have been the most accurate recently seem to have the loudest voice. In reality there is often no difference between luck and skill, because the future isn’t predictable. Plus there’s very little accountability for previous forecasts.

The constant stream of easily accessible “news”, opinions and online information creates a recipe for investors that places undue importance and urgency on short term events and returns, much of which is forgotten weeks or months later. This can also lead to the predisposition to provide simple explanations for complex events. The result of all of this is that investors feel the intense desire to be constantly adjusting investments in reaction to what's currently going on in the world.
Investing based on short-term schemes and predictions is highly ineffective.

Consistently besting the markets over the short term is pretty much impossible. Sure, sometimes it works. But keep in mind that the world is complex, interconnected and highly dynamic. That – as you would expect - means that the short-term is highly uncertain. To focus on that ignores the biggest advantage that most investors possess – a long-term horizon.

Time is the nucleus of investing. It allows for compounding and mitigates risk.

Compounding has been called the eighth wonder of the world. But, time is required to unleash its astonishing power. It works by allowing investors to earn returns on their returns. We’ve often witnessed the wonder when long-standing clients are surprised by how much money they’ve made from earning high-single-digit annualized returns.

In addition, time and risk are inseparably linked. With a long-term time horizon, short-term volatility is not an issue, nor is loss of capital for the long-term investor with a diversified, balanced portfolio. The irony, however, is that investors focusing on the short-term will completely lose sight of the long-term positives.

Your entry price is far more important than geopolitical or economic factors.

The best predictor of future returns really boils down to the entry point and prevailing prices. For bonds it’s the level of yields, and for stocks it’s other fundamental measures of business value. Those factors help in determining what you are getting for your money. Yet investors tend to closely watch and analyze market movements, as well economic and geopolitical factors. Those “big picture” factors have some importance, but are not nearly as significant as their often given credit for. Valuation measures are almost as useless at predicting short-term market moves as dissecting the Federal Reserve’s meeting minutes or Donald Trump’s utterings, but they’re quite reliable when investors choose to look further out.

Emotions cause us to be irrational.

“Success in investing doesn’t correlate with I.Q. once you’re above the level of 25. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.” Warren Buffet.

Human nature, being what it is, has us somewhat wired against investing. For example, we have an innate tendency to want to buy high and sell low. Investors have some difficulty staying focused on the long-term, and get easily distracted by short term events. As a result, it’s quite common for emotions to get the better of investors, causing them to change direction at market extremes and/or abandon the plan when it’s needed the most.

Investors need to have a strategy that takes an appropriate amount of risk, absorbs the bumps along the way and takes full advantage of a time horizon that is most consistent with their overall objectives.
Here’s a sampling of benchmark rates of return as at March 31st, 2015:

<table>
<thead>
<tr>
<th>Index</th>
<th>3 Mo.</th>
<th>1 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P/TSX Composite Index</td>
<td>4.5%</td>
<td>-6.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>S&amp;P 500 Total Return Index ($CAD)</td>
<td>-4.7%</td>
<td>4.4%</td>
<td>18.3%</td>
</tr>
<tr>
<td>S&amp;P 500 Total Return Index ($USD)</td>
<td>1.3%</td>
<td>1.8%</td>
<td>11.6%</td>
</tr>
<tr>
<td>MSCI World Price Index ($CAD)</td>
<td>-6.8%</td>
<td>-2.9%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Broad Composite Cdn. Bond Index</td>
<td>1.4%</td>
<td>0.8%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

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You can find a wealth of information ranging from tax strategies to market commentary on our updated website. You can even ask Wayne a question and access your accounts on line. Stay tuned for more website developments!

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Thank you!

Thank you for the continued opportunity to work together. My team and I are always here should you have questions, or wish to discuss anything related to your portfolio or finances. You can contact me at 1-800-265-5911, 519-675-2512 or by email at wayne.crowder@rbc.com, or my Associate Advisor, Allison Blackshaw, can be reached at 519-675-2517, or by email at allison.blackshaw@rbc.com

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