RBC Dominion Securities Inc.

Kirkpatrick Wealth Management of RBC Dominion Securities

Our investment management process

Wealth Management
Dominion Securities

This document summarizes our investment process. After reading this, you will have an understanding for how we make decisions and how we manage your money.

Diversify by geography

Our process starts by making sure we are diversified by geography. It is tough to know which country is going to perform best and trying to guess which one is going to outperform is a surefire way to underperform.

Who would have thought that the Canadian index (the S&P TSX) would have been one of the worst places to invest in 2015 (down 9.04%) and then one of the best places to invest in 2016 (up 21%)?

In the long run, all of these major indices will increase in value. In the meantime, at the end of each year, we reinvest profits from the indices that did well into those indices that are currently down. In effect, we are buying low and selling high.

"Diversify by geography, sector and asset class, rebalance annually, keep costs low, be tax effective, stay out of negative territory, grow and compound wealth over the long term and do not let short-term events or human emotion derail your plan." – Michael Kirkpatrick

RANKED IN ORDER OF PERFORMANCE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	10 Yr Annualized
BEST	Spain 44.76%	Finland 22.99%	Japan -14.75%	Norway 57.06%	Sweden 23.83%	Ireland 14.10%	Belgium 33.53%	Finland 51.21%	Israel 33.53%	Denmark 48.03%	Denmark 13.38%
	Ireland 43.78%	Hong Kong 16.92%	Israel -14.91%	Australia 44.62%	Denmark 21.87%	New Zealand 3.62%	Denmark 27.18%	Ireland 48.38%	United States 23.16%	Ireland 39.71%	Hong Kong 10.18%
	Singapore 42.33%	Israel 16.48%	Switzerland -16.02%	Singapore 44.62%	Hong Kong 12.67%	United States 2.13%	Germany 24.81%	United States 38.71%	New Zealand 16.88%	Belgium 34.44%	Singapore 8.79%
	Norway 41.03%	Germany 12.40%	United States -24.56%	Sweden 37.72%	**Canada 12.03%**	United Kingdom -3.80%	Singapore 23.80%	Netherlands 37.25%	Denmark 15.96%	Israel 32.38%	United States 8.56%
	Sweden 40.67%	Norway 9.32%	Spain -29.50%	Hong Kong 34.66%	Singapore 11.37%	Switzerland -7.20%	Hong Kong 21.78%	Germany 36.92%	Hong Kong 14.85%	Japan 31.41%	Switzerland 8.27%
	Denmark 36.79%	**Canada 8.19%**	France -31.92%	Belgium 33.17%	Japan 6.67%	Belgium -10.41%	New Zealand 20.57%	Spain 36.36%	Belgium 13.71%	Austria 24.08%	Sweden 7.78%
	Austria 34.69%	Australia 6.15%	**Canada -33.19%**	Israel 31.32%	United States 6.56%	Norway -10.69%	Austria 20.31%	Japan 33.49%	Singapore 12.50%	Italy 22.69%	Germany 7.12%
	Belgium 33.20%	Singapore 5.47%	Germany -34.79%	**Canada 29.68%**	Australia 3.54%	**Canada -12.24%**	Sweden 16.65%	Belgium 33.04%	Ireland 11.71%	Finland 22.35%	Australia 6.96%
	Germany 32.96%	Denmark 5.40%	Denmark -35.93%	New Zealand 23.35%	Switzerland 3.31%	Netherlands -12.27%	France 15.50%	Switzerland 32.28%	**Canada 10.65%**	Netherlands 21.54%	Netherlands 6.75%
	France 31.61%	Spain 2.34%	Singapore -37.89%	Austria 19.48%	Norway 0.99%	Australia -12.74%	Switzerland 15.34%	Denmark 31.83%	Switzerland 9.07%	United States 20.75%	Israel 6.27%
	Netherlands 28.16%	Netherlands -0.32%	United Kingdom -38.20%	Netherlands 19.02%	Austria 0.81%	Japan -14.30%	Netherlands 14.96%	France 31.70%	Finland 8.43%	Switzerland 20.45%	New Zealand 5.67%
	Italy 28.00%	France -5.94%	Netherlands -38.31%	Spain 17.81%	Finland 0.54%	Denmark -14.78%	Australia 13.87%	Sweden 29.61%	Australia 5.55%	France 19.80%	United Kingdom 4.85%
	Australia 27.42%	United Kingdom -11.28%	Sweden -39.87%	United Kingdom 17.54%	Germany -0.44%	Spain -14.87%	Norway 11.57%	Italy 24.81%	Netherlands 5.43%	Hong Kong 19.28%	Belgium 4.44%
	Finland 27.08%	United States -11.47%	Australia -40.69%	Denmark 16.77%	United Kingdom -1.40%	Sweden -16.25%	United States 11.10%	United Kingdom 24.27%	Japan 5.09%	Germany 17.67%	France 4.06%
	Hong Kong 26.55%	New Zealand -11.79%	Italy -40.79%	France 10.20%	New Zealand -2.88%	Hong Kong -16.57%	United Kingdom 8.56%	Austria 18.44%	Spain 4.13%	Sweden 13.91%	Finland 3.83%
	United Kingdom 26.36%	Switzerland -12.00%	Hong Kong -42.10%	United States 7.76%	Israel -3.96%	France -17.33%	Finland 7.89%	Israel 15.71%	United Kingdom 3.30%	New Zealand 12.42%	**Canada 3.72%**
	Switzerland 25.99%	Italy -12.92%	New Zealand -45.77%	Switzerland 7.00%	Netherlands -6.68%	Germany -18.09%	Italy 6.57%	Hong Kong 15.47%	Sweden 1.45%	United Kingdom 10.86%	Spain 3.41%
	Canada 15.74%	Austria -14.55%	Finland -46.15%	Italy 5.86%	Belgium -8.18%	Singapore -19.05%	**Canada 4.34%**	New Zealand 13.37%	Italy -1.20%	Australia 7.99%	Norway 2.68%
	United States 13.47%	Sweden -16.21%	Norway -56.94%	Germany 4.73%	France -12.42%	Italy -23.94%	Japan 3.38%	Norway 12.48%	France -1.63%	Norway 1.95%	Japan 2.67%
	New Zealand 10.19%	Belgium -19.65%	Belgium -59.80%	Ireland -5.11%	Italy -22.64%	Israel -28.09%	Ireland 1.89%	**Canada 10.23%**	Germany -2.10%	Spain 1.17%	Italy -1.43%
	Japan 5.36%	Japan -19.66%	Austria -61.64%	Finland -7.43%	Ireland -24.59%	Finland -32.61%	Spain -5.09%	Australia 6.27%	Norway -14.76%	Singapore -1.31%	Ireland -3.12%
WORST	Israel -5.66%	Ireland -33.73%	Ireland -66.30%	Japan -9.30%	Spain -29.93%	Austria -36.27%	Israel -9.16%	Singapore 4.89%	Austria -23.30%	**Canada -9.04%**	Austria -5.91%

Source: Bloomberg, as of 12/31/15. Annual index price total returns shown above is for benchmark indicts (MSCI Local). All index price total returns are in CAD.

Diversify by sector

"The most important quality for an investor is temperament, not intellect." – Warren Buffett

At the same time that we are diversifying by country, we are also diversifying by sector. When observing the chart below, it is tough to see any predictable pattern. That is just the point: it is impossible to consistently predict which sector will outperform.

Our strategy is to have exposure to all of these sectors and rebalance at the end of each year (i.e., take the froth off the top of the sectors that did well and add to the sectors that performed poorly). Again, we are buying low and selling high. There is no human emotion or guesswork involved.

BEST

RANKED IN ORDER OF PERFORMANCE

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	10 Year Annualized
Materials 39.81%	Materials 30.26%	Consumer Staples -5.62%	Information Technology 53.47%	Health Care 44.85%	Telecom Services 23.06%	Consumer Staples 22.58%	Health Care 44.20%	Consumer Staples 49.09%	Information Technology 15.64%	Healthcare 14.84%
Information Technology 23.58%	Telecom Services 16.99%	Telecom Services -20.11%	Financials 45.77%	Materials 36.54%	Health Care 16.67%	Consumer Discretionary 22.05%	Consumer Discretionary 43.04%	Information Technology 35.13%	Consumer Staples 12.41%	Consumer Staples 11.73%
Telecom Services 18.90%	Industrials 12.99%	Utilities -20.76%	Energy 41.54%	Consumer Discretionary 25.47%	Consumer Staples 6.77%	Financials 17.14%	Industrials 37.55%	Healthcare 30.32%	Telecom Services 3.56%	Telecom Services 10.29%
Financials 18.25%	Utilities 11.49%	Health Care -25.42%	Materials 34.17%	Telecom Services 18.96%	Utilities 6.47%	Industrials 15.90%	Information Technology 36.12%	Consumer Discretionary 29.12%	Consumer Discretionary -1.51%	Industrials 9.69%
Industrials 15.74%	Information Technology 11.26%	Materials -26.48%	Health Care 32.93%	Utilities 18.39%	Industrials 0.12%	Health Care 14.71%	Financials 26.78%	Industrials 21.87%	Financials -1.70%	Consumer Discretionary 7.75%
Consumer Discretionary 15.67%	Energy 11.22%	Industrials -26.52%	Industrials 26.69%	Industrials 16.66%	Financials -3.84%	Telecom Services 11.90%	Consumer Staples 23.57%	Utilities 16.08%	Utilities -3.49%	Financials 6.60%
Utilities 6.85%	Consumer Discretionary 4.22%	Consumer Discretionary -35.40%	Utilities 19.12%	Energy 11.71%	Energy -14.80%	Information Technology 7.18%	Energy 13.32%	Telecom Services 15.53%	Industrials -11.06%	Utilities 4.78%
Consumer Staples 5.21%	Financials -0.77%	Energy -35.78%	Consumer Discretionary 15.18%	Consumer Staples 10.91%	Consumer Discretionary -15.45%	Utilities 3.98%	Telecom Services 11.38%	Financials 13.79%	Health Care -15.63%	Information Technology 0.88%
Energy 4.24%	Consumer Staples -5.99%	Financials -35.82%	Consumer Staples 9.43%	Financials 8.51%	Information Technology -20.13%	Energy -4.83%	Utilities -4.44%	Materials -2.60%	Materials -21.04%	Materials -0.06%
Health Care 2.48%	Health Care -22.46%	Information Technology -49.34%	Telecom Services 7.51%	Information Technology 4.72%	Materials -21.21%	Materials -5.67%	Materials -29.11%	Energy -4.82%	Energy -22.87%	Energy -1.09%

WORST

Source: Bloomberg. Annual index price total returns shown above are for the corresponding S&P/TSX Composite Index. Data shown is for annual performance ending December 31 of each calendar year and is expressed in CAD. All returns shown on a total return basis. Index returns are for illustrative purposes only and do not represent actual iShares Fund performance. Index performance returns do not reflect any management fees, transaction cost or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Fixed-income diversification

"The four most dangerous words in investing: 'this time it's different.'" – Sir John Templeton

I find that many investors completely disregard fixed-income assets. I read quotes such as: "Who needs bonds?" or "You're just not being paid to take the risk" or "A 30-year Government of Canada bond is now paying less than 2% a year in interest" – Ian McGugan, The Globe and Mail, Published Thursday, Apr. 23, 2015

In this example, only 30-year Government of Canada bonds are being considered. What about short- or medium-term bonds, or foreign bonds, corporate bonds and real return bonds?

With so many different types of assets under the fixed-income umbrella, we consider it our responsibility to consider how they can all improve the diversity of a portfolio.

There are two common causes for why investors typically write off this entire class of assets.

1. Interest rates are low.

In 2014 the 30-year Government of Canada Bond was yielding 3.1%, but the FTSE TMX Canada Universe bond index (a basket of Canadian bonds) was up 8.8%!

Not a bad return, right? How did this happen? Remember that the total return for bonds is made up of the interest rate that they pay out, as well as any capital gain. In years when stocks are down, that money flowing out of stocks usually ends up flowing into other asset classes such as fixed income. This in turn increases their market value (i.e., if there are more buyers of an asset than there are sellers we see an increase in market price for that asset).

2. When interest rates go up, bond prices will go down.

More precisely, when interest rates go up, long-term bond prices will go down. However, focus should be on the entire fixed-income family. Rate reset preferred shares and floating rate bonds should do well in a rising interest rate environment and short-term bonds should barely be affected.

This reminds me of the year 2003 when I was working for an advisor at another financial institution. I remember many investors wanted to roll their maturing GICs into cashable GICs in preparation for when interest rates would rise. The hope was to wait and then lock in a 5-year GIC at a higher interest rate.

"The investor's chief problem, and even his worst enemy, is likely to be himself." – Benjamin Graham, The Intelligent Investor: A Book of Practical Counsel (1949)

A strong case for diversifying your fixed income investments – returns on different types of fixed income investments (2006–2015)

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1.7%	2.4%	1.2%	1.3%	2.4%	2.3%	0.8%	1.2%	2.0%	1.6%
Convertible Bonds 14.2%	Convertible Bonds 7.5%	Global Bonds 9.6%	U.S. High-Yield Bonds 44.5%	U.S. High-Yield Bonds 14.4%	Global Corporate Bonds 10.8%	Emerging Market Bonds 17.8%	Convertible Bonds 13.9%	Global Bonds 9.4%	Convertible Bonds 4.2%
U.S. High-Yield Bonds 9.6%	Emerging Market Bonds 5.1%	Canadian Short-Term Bonds 8.6%	Emerging Market Bonds 28.5%	Emerging Market Bonds 12.3%	Canadian Bonds 9.7%	U.S. High-Yield Bonds 15.4%	U.S. High-Yield Bonds 7.1%	Canadian Bonds 8.8%	Canadian Bonds 3.5%
Emerging Market Bonds 8.7%	Global Bonds 4.9%	Canadian Bonds 6.4%	Convertible Bonds 23.2%	Global Corporate Bonds 9.4%	Emerging Market Bonds 7.7%	Convertible Bonds 12.0%	Canadian Short-Term Bonds 1.7%	Global Corporate Bonds 8.4%	Canadian Short-Term Bonds 2.6%
Canadian Bonds 4.1%	Cash 4.3%	Cash 2.6%	Global Corporate Bonds 18.0%	Convertible Bonds 9.3%	Global Bonds 6.5%	Global Corporate Bonds 10.6%	Global Bonds 1.0%	Emerging Market Bonds 8.1%	Global Bonds 1.9%
Canadian Short-Term Bonds 4.0%	Canadian Short-Term Bonds 4.1%	Global Corporate Bonds -5.8%	Canadian Bonds 5.4%	Canadian Bonds 6.7%	U.S. High-Yield Bonds 5.0%	Global Bonds 5.3%	Cash 1.0%	Convertible Bonds 5.6%	Emerging Market Bonds 1.3%
Cash 3.9%	Canadian Bonds 3.7%	Emerging Market Bonds -13.9%	Canadian Short-Term Bonds 4.5%	Global Bonds 3.8%	Canadian Short-Term Bonds 4.7%	Canadian Bonds 3.6%	Global Corporate Bonds -0.9%	U.S. High-Yield Bonds 4.3%	Cash 0.6%
Global Corporate Bonds 3.2%	Global Corporate Bonds 3.7%	U.S. High-Yield Bonds -25.7%	Global Bonds 1.1%	Canadian Short-Term Bonds 3.6%	Cash 0.9%	Canadian Short-Term Bonds 2.0%	Canadian Bonds -1.2%	Canadian Short-Term Bonds 3.1%	Global Corporate Bonds -0.1%
Global Bonds 2.1%	U.S. High-Yield Bonds 1.5%	Convertible Bonds -28.0%	Cash 0.4%	Cash 0.4%	Convertible Bonds -4.2%	Cash 0.9%	Emerging Market Bonds -4.8%	Cash 0.9%	U.S. High-Yield Bonds -2.7%

Annual inflation (CPI)	Bank of Canada	Canadian Bonds	FTSE TMX Canada Universe Bond Index	Global Bonds	Citigroup World Global Bond Index TR*
Cash	FTSE TMX Canada 30 Day T-Bill Index	U.S. High-Yield Bonds	Bank of America Merrill Lynch High-Yield BB-B TR*	Emerging Market Bonds	JP Morgan EMBI Global Diversified TR*
Canadian Short-Term Bonds	FTSE TMX Canada Short Term Overall Bond Index	Global Corporate Bonds	BARCAP US Corporate Investment Grade TR*	Convertible Bonds	Thomson Reuters Convertible Global Focus Index*

Source: RBC Global Asset Management Inc. TR represents total return. *C$ Hedged.

Unfortunately, 14 years have gone by and interest rates have since gone down. There are two lessons to be learned from this:

1. Do not assume anything.

If interest rates are low it doesn't necessarily mean they are going to go up in the short term. The notion of being able to accurately predict the direction and timing of interest rate movements is foolhardy. Generally, it results in many sleepless nights, time wasted on thinking about the portfolio and portfolio underperformance.

2. Proactively plan for all scenarios.

Instead of putting all of our eggs in one basket, we "bulletproof" the fixed side of the portfolio by having exposure to all of the major fixed-income assets.

Adherence to these two principles ensures that we are prepared for any interest rate scenario (low interest rates, declining/rising interest rates and high interest rates).

A well-known and often forgotten reality is that when stocks are doing poorly, fixed income tends to do well (see the illustration on the next page). This may be attributed to the fact that when money flows out of stocks, it often ends up flowing into fixed-income assets and cash equivalents. Since 1980 we have rarely seen consecutive years where stocks outperform bonds. Keeping in mind the impossibility of predicting when stocks will outperform fixed income, our strategy is to own each asset and to rebalance once per year (i.e., take profits from assets that have gone up and add to assets that have gone down).

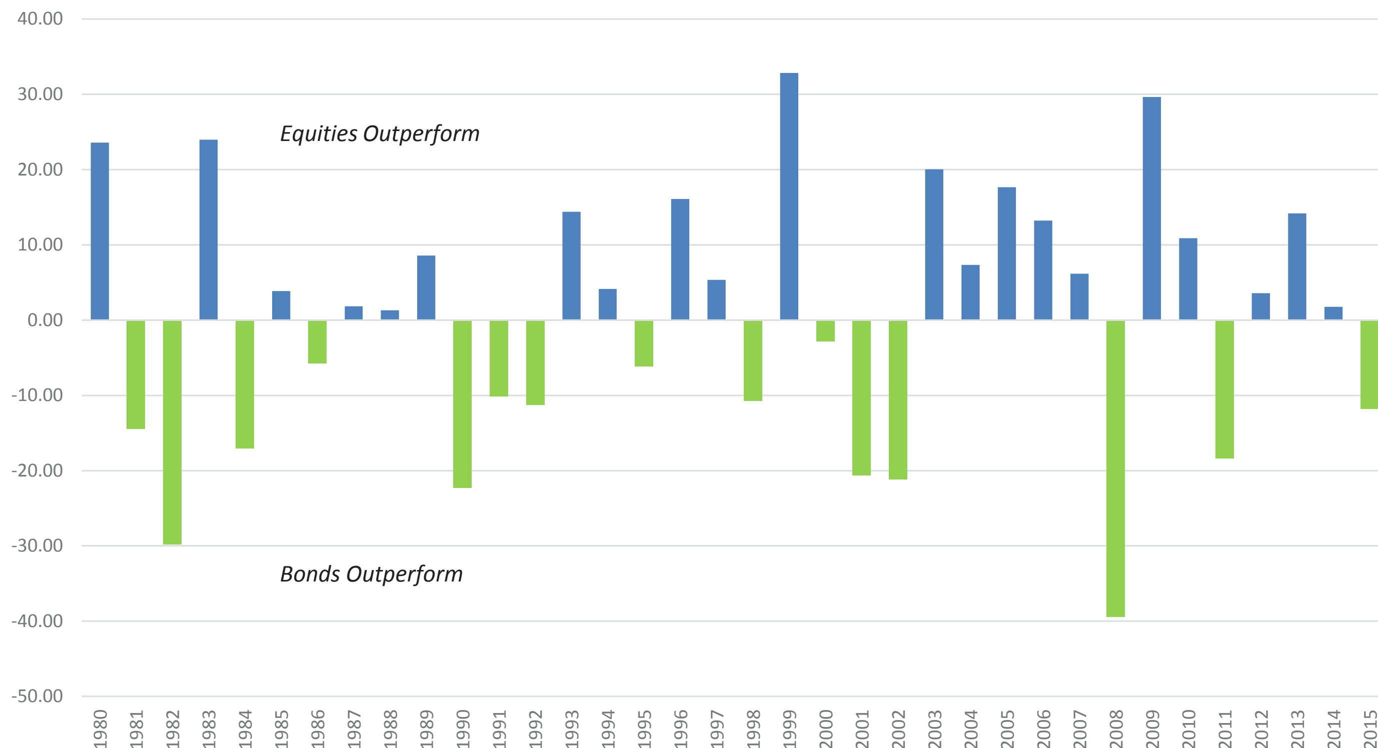
"Growing wealth over the long term has less to do with big returns in bull markets and more to do with preserving capital in bear markets."
– Michael Kirkpatrick

Why control market risk?

"Inactivity strikes us as intelligent behavior."
– Warren Buffet (1996 Annual Report of Berkshire Hathaway)

As we have witnessed, equities can suffer very bad years. In 2008 the TSX was down 33%. Once the market is down it is too late to react. Unfortunately, the damage has been done and there is no rectifying it. Our approach is to proactively plan for such an occurrence by allocating a portion of our portfolio to the fixed side, thus sheltering that portion from a deterioration in equities. Some investors may find this approach shocking. It is a common mistake among many to allow the media to negatively influence proper portfolio management. It is easy to become panicked and make changes that damage one's portfolio. Our steadfast approach requires that we resist divergence from the plan to maximize security. We can rest assured that we are well positioned and diversified.

A well-known but often forgotten fact



*Source: Morningstar Direct, as of December 31, 2015
Based on S&P/TSX Composite Index and FTSE TMX Canada Universe Bond Index data from 1980-2015.

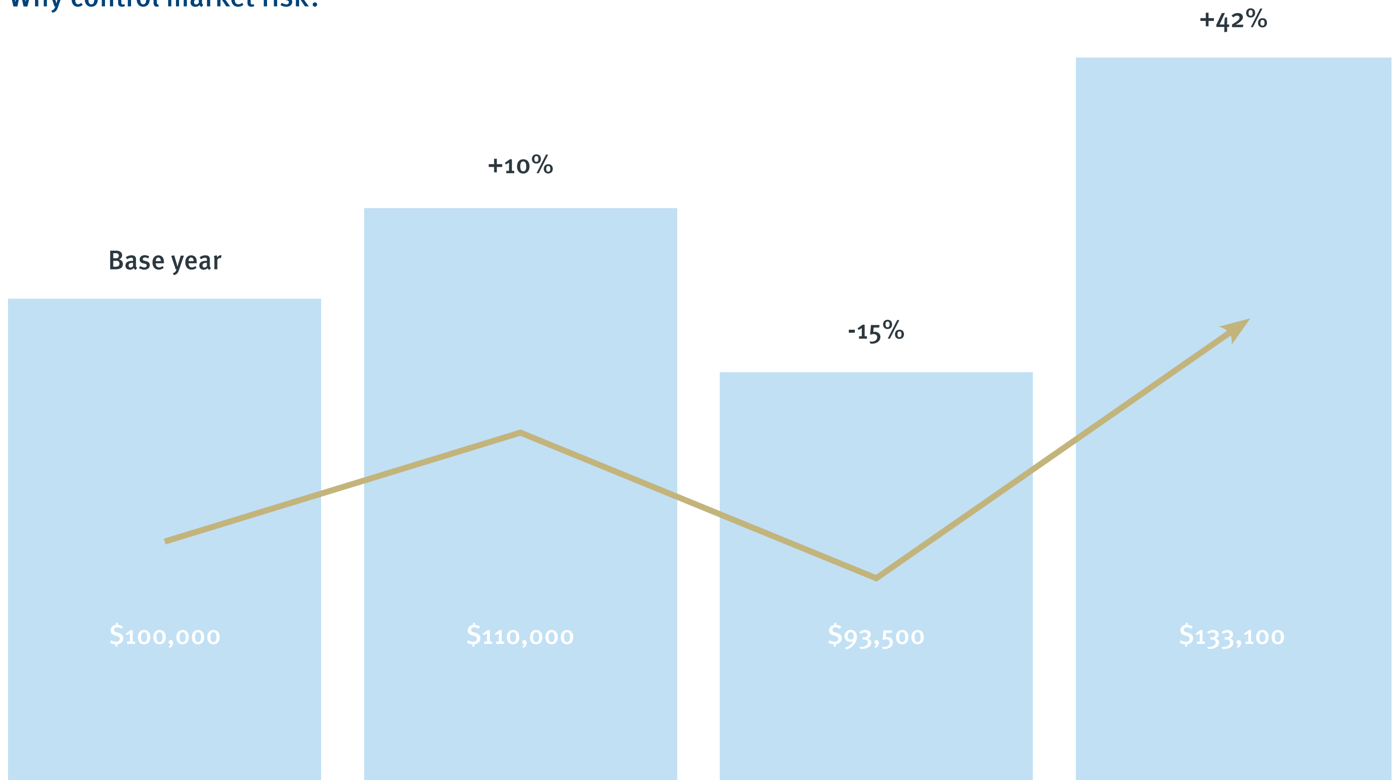
> "Rule number one: Don't lose money. Rule number two: Don't forget rule number one."
> – Warren Buffett

It is also important to remember, when funds flow out of equities they usually flow into fixed assets. Therefore, the fixed side of the portfolio will benefit from the pull back occurring in equities. Ultimately, the best way to grow your wealth is to stay out of negative territory.

In chart below, the goal is to grow the portfolio at 10% per annum. Note the rate of return (42%) required to get back on track after experiencing the -15% plunge in year three.

This clearly displays the difficulties one may be faced with in trying to time the market to recuperate from a bad year. We truly are better off staying out of negative territory altogether and fixed income helps us accomplish this.

Why control market risk?



There is no such thing as a free lunch

To further highlight the simplicity of our rebalancing method, it's useful to point out how there is zero emotion, guesswork or added costs involved. Risks are significantly reduced solely by following our target asset mix and regularly ensuring that we are not overweight in any particular asset.

We can also see in the chart below that rebalancing adds value. Note the increase in the return of the portfolio in the example below: the annually rebalanced portfolio is up 0.34% per year over the 35-year period compared to the non-rebalanced Simple Average Portfolio (9.22% - 8.88%). While there are no free lunches, annually rebalancing a portfolio is an example of a little work going a long way to help enhance your returns.

Other observations to consider

Largest loss: by having some fixed income we avoid big losses, such as the -33% experienced by the 100% Equities Portfolio.

Number of losses greater than 10%: Look to the Annually Rebalanced 50/50 Portfolio where there is only one instance of a loss of greater than 10% in one calendar year. This is an outstanding track record over a 35-year time period. This makes for a better experience for the investor.

On the other hand, the 100% equity portfolio saw losses that were greater than 10% in five different years during the same time period. This unnecessary volatility leads to much frustration and many sleepless nights.

We would much rather stay out of negative territory and minimize losses, as this is the surest way to grow your portfolio over the long term.

The benefits of diversification

	100% Equities Portfolio	100% Bonds Portfolio	Simple Average 50/50 Portfolio	Annually Rebalanced 50/50 Portfolio
Return	8.63%	9.12%	8.88%	9.22%
Volatility	16.19	7.41	11.80	9.25
Largest Loss	-33.00%	-4.31%	-18.66%	-13.29%
Average Loss	-9.61%	-2.22%	-5.91%	-4.10%
# of Losses	11	3	7.00	7
# of Losses > 10%	5	0	2.50	1

*Source: Morningstar Direct, as of December 31, 2015
Based on S&P/TSX Composite Index and FTSE TMX Canada Universe Bond Index data from 1980-2015.

The power of dividends

Imagine owning a GIC that pays you 2% today and in five years from now pays you 4%. How great would that be? While that doesn't happen with GICs, it can happen with companies that consistently boost their dividends.

"The only value of stock forecasters is to make fortune-tellers look good." – Warren Buffet (1992 Annual Report of Berkshire Hathaway)

Building your passive income stream through dividend growth

The chart below displays the dividend history of Bank of Nova Scotia (BNS). We can see from 1996 to 2002 the BNS dividend went from 0.33 to 0.73. It doubled in six years!

But the story does not end there since we can see that the dividends keep going up just about every year.

Dividend-paying stocks can provide a level of return that investments like GICs historically haven't.

This dividend growth is happening with the companies we own within our portfolio.

Bank of Nova Scotia dividend growth

BNS	Dividends Per Share		Growth
1996-10-31	$	0.33	0.00%
1997-10-31	$	0.37	13.85%
1998-10-30	$	0.40	8.11%
1999-10-29	$	0.44	8.75%
2000-10-31	$	0.52	19.54%
2001-10-31	$	0.62	19.23%
2002-10-31	$	0.73	16.94%
2003-10-31	$	0.84	15.86%
2004-10-29	$	1.10	30.95%
2005-10-31	$	1.32	20.00%
2006-10-31	$	1.50	13.64%
2007-10-31	$	1.74	16.00%
2008-10-31	$	1.92	10.34%
2009-10-30	$	1.96	2.08%
2010-10-29	$	1.96	0.00%
2011-10-31	$	2.05	4.59%
2012-10-31	$	2.19	6.83%
2013-10-31	$	2.39	9.13%
2014-10-31	$	2.56	7.11%
2015-10-30	$	2.72	6.25%
2016-12-31	$	2.89	6.10%
2017-12-31	$	3.05	5.54%
2018-12-31	$	3.16	3.74%

Source: Scotiabank "Common Share Dividend History and Stock Splits"

"Our stay-put behavior reflects our view that the stock market serves as a relocation center at which money is moved from the active to the patient."
– Warren Buffet (1991 Annual Report of Berkshire Hathaway)

"We continue to make more money when snoring than when active." – Warren Buffet (1996 Annual Report of Berkshire Hathaway)

Johnson & Johnson dividend growth

JNJ	Dividends Per Share		Growth
1996-12-31	$	0.37	0%
1997-12-26	$	0.43	16%
1998-12-31	$	0.49	14%
1999-12-31	$	0.55	12%
2000-12-29	$	0.62	14%
2001-12-28	$	0.70	13%
2002-12-27	$	0.80	14%
2003-12-26	$	0.93	16%
2004-12-31	$	1.10	18%
2005-12-30	$	1.28	16%
2006-12-29	$	1.46	14%
2007-12-28	$	1.62	11%
2008-12-26	$	1.80	11%
2009-12-31	$	1.93	8%
2010-12-31	$	2.11	9%
2011-12-30	$	2.25	7%
2012-12-28	$	2.40	7%
2013-12-27	$	2.59	8%
2014-12-26	$	2.76	7%
2015-12-31	$	2.95	7%
2016-12-31	$	3.10	5%
2017-12-31	$	3.27	6%
2018-12-31	$	3.39	4%

Source: Johnson & Johnson Investor Relations

Why use low-cost ETFs?

We now know that we want to diversify our portfolio by geography, sector and fixed income assets. We know we want to rebalance each year and we understand the benefits of owning companies that increase their dividends. Now the question is: How do we own these assets?

Our options are:

- We can own the individual stocks
- We can hire managers to give us exposure to the various asset classes
- We can own low-cost ETFs to provide us with exposure to the assets

Suppose we wanted to own each stock individually. To start off, we would want exposure to large cap Canadian equites. No problem. We select a few banks, a few utilities, some telecommunication companies and some energy companies and end up with a tight-knit group of say 20 stocks. Then we need exposure to small- and medium-sized Canadian companies. So we find another 20 companies in that space. We do the same for U.S. companies large and small and add another 40 names. Then we need domestic bonds, both government as well as corporate bonds and we want a mix of credit ratings and duration as well.

Do you see where this is going? We have barely scratched the surface in terms of the number of asset classes we want to own and we already have well over 100 individual positions to keep track of. How could any team manage each position effectively and report it in an easy-to-read format?

It would be tough to decipher which sectors have done well and which underperformed. Furthermore, it would be difficult to know which positions we would be trimming and adding to at the end of each year.

As you may have surmised, it is just not realistic to own individual positions and to manage them effectively. Investors following this system can completely write off entire asset classes in order to make their portfolio more concise and easy to keep track of. They may have 30 large cap companies from Canada and the U.S., a bond fund and a global equity fund. Is that enough? What about exposure to small cap equities or to inflation-linked bonds? In years when small caps and inflation-linked bonds outperform, these investors are not benefiting and enjoying the returns. This makes no sense to us, hence we do not cut corners or cut assets out of our portfolio.

> "When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients. Both large and small investors should stick with low-cost index funds." – Warren Buffet (2016 Berkshire Hathaway Shareholder Letter)

Hiring external managers to manage the portfolio

We could go out and hire a manager for the U.S. equity component of our portfolio, as well as another manager for our international equity exposure.The benefit would be that we get professional money management and the drawback would be that it costs more. Is it worth it? Would active managers add value after taking into account their costs?

"The only consistent data point we have observed over a five-year horizon is that a majority of active equity managers in most categories have lagged comparable benchmark indices." (http://www.spindices.com/ documents/ spiva/spiva-canada-scorecard-midyear-2015.pdf)

SPIVA Canada Scorecard 2015

The SPIVA Canada scorecard of 2016 shows that in the previous 10 years only 8.89% of active Canadian professional money managers beat the index (S&P/TSX). In the U.S., 1.72% of active managers beat the index (S&P 500). After seeing those numbers, do you think it is worth it to pay for active management?

Considering managers have consistently underperformed the index, we would much prefer owning the index and keeping costs low.

More benefits of ETF investing

An ETF portfolio is very visual. After one year we can clearly see which asset outperformed and which underperformed. This makes it easy for us to rebalance the portfolio by taking profits from assets that are up and buy assets that are down. With a portfolio of 20 ETFs we can get exposure to the same asset classes that pension funds own. We also see that the returns of index (ETF) investing beats that of active management and it is a more cost-effective way of managing your wealth.

"A prediction about the stock market tells you nothing about where stocks are headed, but a whole lot about the person doing the predicting." ("Could Stocks Still be Undervalued?" article by Mark Seller, February 18, 2004)

"… investors who diversify widely and simply sit tight with their holdings are certain to prosper … the Dow Jones Industrial Average (an index fund of sorts) soared from 66 to 11,497, with its component companies all the while paying ever increasing dividends." (Warren Buffet, 2015 Berkshire Hathaway Shareholder Letter)

All that to say, ETFs are a powerful money management tool. That is why ETFs make up the foundation of our portfolio.

Report 1: Percentage of Funds Outperforming the Index

FUND CATEGORY	COMPARISON INDEX	ONE-YEAR (%)	THREE-YEAR (%)	FIVE-YEAR (%)	TEN-YEAR (%)
Canadian Equity	S&P/TSX Composite	17.31	19.35	30.00	8.89
	S&P/TSX Capped Composite	17.31	19.35	30.00	8.89
Canadian Small/Mid Cap Equity	S&P/TSX Completion	19.44	33.33	43.90	24.56
Canadian Dividend & Income Equity	S&P/TSX Canadian Dividend Aristocrats	19.44	28.57	25.00	0.00
U.S. Equity	S&P 500 (CAD)	28.40	2.25	0.00	1.72
International Equity	S&P EPAC LargeMidCap (CAD)	23.81	12.50	9.62	-
Global Equity	S&P Developed LargeMidCap (CAD)	24.14	3.97	3.60	-
Canadian Focused Equity	50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P/Citigroup EPAC PMI	48.28	6.76	5.43	-

Source: S&P Dow Jones Indices LLC, Fundata. Data as of Dec. 31, 2016. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

The big picture: wealth management

At Kirkpatrick Wealth Management of RBC Dominion Securities, the investment component is just a part of the value we bring to you. Additional areas where we add value and help you include:

Risk planning

We make sure that there is a foundation in place so that should something unexpected happen to you, your family would be protected.

Tax planning

We use advanced tax planning strategies to make sure your portfolio is tax efficient and we look for ways to help reduce your tax bill year in and year out.

Retirement planning

Our in-house tools provide you with a detailed roadmap of your retirement. These projections help illustrate what retirement will look like financially for you. They help show you how much you can spend year in and year out and we show you how to turn your portfolio into a tax-efficient stream of income that will last for the rest of your life.

Estate planning

We help you create a plan for your legacy and ensure that your assets are passed according to your wishes in the most effective manner possible.

We also help answer the following questions.

- Is my family protected from my business liability?
- What should I be doing with the surplus cash in my business?
- Is setting up a trust a good idea for my family?
- What is the best investment vehicle (IPP, IRP, RRSP, TFSA, etc.) to plan my retirement?
- How do I turn my portfolio into a tax-efficient stream of income that will last the rest of my life?
- How do I pull money out of my corporation while still maintaining my current tax rate?
- If I were not able to go to work, would my family and business be protected?
- How can I compare the benefits of a pension and a Locked-in Retirement Account (LIRA)?
- How can I protect and maximize new-found wealth, such as stock options that have gone up or an inheritance?
- What do I do with my RRSPs when I retire? How do I make sure I keep my taxes low and keep receiving OAS?

"The greatest Enemies of the Equity investor are expenses and emotions."
– John C. Bogle, The Little Book of Common Sense Investing

For business owners

For business owners, we help to diversify their portfolio outside of the operating business. We also help business owners with exit and retirement planning and help them pull money out of the corporation in a tax effective way.

Family enterprise advising

Running a family business has challenges that include sentimental decisions that aren't typically present in other businesses. Owners of family enterprises can improve their chances of intergenerational continuity by building their knowledge and skills and by working with an advisor who understands their unique needs and goals. Family enterprise advising focuses on the day-to-day complexities and needs of the business, such as:

- Employing family, business, and ownership governance structures to aid decision making and communication
- Exploring personal and family values and how they impact decision making
- Developing a Family Constitution of guiding principles for the overall transition process
- Creating a Code of Conduct to facilitate constructive family discussions and communications
- Establishing and running effective family meetings to keep family members engaged and informed
- Philanthropic planning
- Using "transformational" versus "transactional" planning for transition success

"Keeping a family business alive is perhaps the toughest management job on earth. Optimism and idealism and enthusiasm and denial of reality may be essential to success." – John L. Ward

Fee schedule

Through our Private Investment Management (PIM) program, our clients are charged a single fee rather than commissions on individual transactions.

As you have read, we bring a lot of value to the table when it comes to helping our clients. We find that our clients like having a trusted advisor that they can rely on to provide them with honest answers and helpful advice. This is why we are happy to share what our costs are and we find that our clients appreciate the transparency. We are paid based on an annual percentage of the portfolio size. Our interests are aligned with yours, because everyone benefits when your portfolio grows in value.

Private Investment Management fee schedule	
Account size	**Base fee**
$200,000 – $499,999	1.35%
$500,000 – $999,999	1.10%
$1,000,000 – $1,999,999	0.90%
$2,000,000 – $4,999,999	0.70%
$5,000,000 – $20,000,000	0.60%
$20,000,000 plus	0.50%

"Experience and excellence aren't expensive ... They're priceless." – Peter Merrick

How PIM fees are calculated

The formula for calculating the management fee on a monthly basis is:

$$\text{Fee} = \frac{(\text{Total Month End Portfolio Value x Billing Rate}) \text{ x \# days in month}}{\text{365 Days}}$$

For additional information regarding the PIM Program, please refer to the Client Account Agreements and Disclosures Document.

Putting you first with a team approach

As a client of Kirkpatrick Wealth Management of RBC Dominion Securities, you will receive timely service and professional advice through a team approach. Michael's team members focus on different areas of client service, so you get the expert assistance you need when you need it.

Michael Kirkpatrick, B.Sc., CFP, CIM, FEA, FMA, TEP

Portfolio Manager

Michael helps you build and protect wealth. Born and raised in Ottawa, Michael graduated from Carleton University with a Bachelor of Science degree in biology and a minor in business. Having always been interested wealth management and people, Michael joined the industry in 2000 and now specializes in helping retirees and business owners with the wealth management process.

As a Certified Financial Planner (CFP), Certified Health Insurance Specialist (CHS), Canadian Investment Manager (CIM), Chartered Life Underwriter (CLU), Family Enterprise Advisor (FEA), Financial Management Advisor (FMA), and Trust and Estate Practitioner (TEP), Michael's expertise extends well beyond the scope of basic investment management.

Michael is a member of the Ottawa Estate Planning Council, the Society of Trust and Estate Practitioners and the Capital Angel Network. In his spare time, Michael enjoys competing in CrossFit and reading books by Ken Follet, Tony Robbins, Malcom Gladwell and Nassim Taleb. Michael and his wife, Saskia, live in the historic By-ward Market with their daughter Heidi.

Heather Mcnenly

Associate Advisor

Heather started with an independent firm in 2011 as an Investment Associate. She attended Carleton University where she graduated with a Bachelor of Arts degree in psychology.

Heather manages the day-to-day administrative duties, which include account documentation, responding to client inquiries, and entering orders. Originally from the Toronto area, Heather made the move to Ottawa in 2007. She enjoys spending time with her family, reading and watching an Ottawa Senator's game every so often.

Michael's extended wealth management services team

Helping you manage your investments is just one way Michael can help you manage your overall financial concerns. In addition to investing and money management, he offers assistance with financial planning, insurance strategies, and Will and estate planning.

Steve D. Hunter, B.Sc., MBA, CFP
Financial Planner

Steve has been with RBC Dominion Securities since 2006. A graduate of the University of Toronto (1977) and the Schulich School of Business, Steve pursued a distinguished 25-year career in the technology industry before joining the investment industry in 2002. He holds a life insurance license and the Certified Financial Planner (CFP) designation. He works closely with Michael to prepare Compass Financial Plans, and to ensure that clients receive comprehensive financial planning information.

Joseph Power, LL.B.
Will and Estate Consultant

Joseph graduated from Carleton University in 1988 and from the University of Western Ontario Law School in 1991. He was called to the Ontario Bar in 1993. Prior to joining RBC Dominion Securities, he practiced estate planning in a private firm and served as a Will and Estate Consultant with Royal Trust Corporation. He assists Michael's clients with structuring estates in an efficient and tax-effective manner.

Mike Keyes, B.Comm., CLU
Estate Planning Specialist, Vice-President

Mike began his career in the insurance industry in 1990 and holds the Chartered Life Underwriter (CLU) designation. He employs a comprehensive process to assess client needs and then recommends creative, tax-exempt insurance products to achieve wealth management objectives. Mike can focus on both personal and corporate insurance solutions to help increase net worth and reduce impact of taxation. He can also ensure wealth is efficiently transferred to heirs in accordance with your wishes.

Mark Skeggs, CPA, CA, CFP, TEP
Business Owner Specialist
High-Net-Worth Planning Services

Mark is a Chartered Professional Accountant (CPA), Chartered Accountant (CA), Certified Financial Planner (CFP), and a Trust and Estate Practitioner (TEP). Prior to joining RBC, Mark spent over 14 years in the private company services tax group of a "Big Four" accounting firm in Toronto. Mark works closely with Michael to identify strategies and solutions that are customized to meet your personal and business planning objectives. Tax, business risk, succession and retirement strategies – including many that are particular to the business owner/manager – will be identified, which you would then discuss with your lawyer and accountant.

Why RBC Dominion Securities?

"I've learned that every investor should go to investment conferences, if only to meet 400 other people who look like you, think like you, speak like you, work like you, went to the same school as you, and look at the same data as you, all of whom claim to have an edge over everyone else in the room." – Morgan Housel

RBC Dominion Securities

- Canada's leading full-service wealth management firm with C$230 billion in assets under administration
- Over 1,500 Investment Advisors in 146 branches in communities across Canada
- One of Canada's largest discretionary managers with C$58 billion in assets under management
- Canada's top-ranked equity research group (Brendan Wood International Review of Institutional Equity Research, Sales and Trading Performance in Canada)
- Member of the Investment Industry Regulatory Organization of Canada (IIROC)
- Member of the Canadian Investor Protection Fund (CIPF), which provides investors up to $1 million in coverage if a member firm becomes insolvent
- #1 overall bank-owned investment firm as ranked by advisors (2016 Investment Executive Brokerage Report Card)
- A member company of RBC Wealth Management

RBC Wealth Management

- Ranked #1 in Canada in both retail asset management[1] and high-net-worth market share[2]
- Over C$700 billion in assets under administration and more than C$442 billion in assets under management
- Ranked best private banking services overall for seven consecutive years (2008-2014 Euromoney Private Banking and Wealth Management Survey)
- Recognized as the world's fifth-largest wealth manager in Scorpio Partnership's Private Banking Benchmark 2014 annual survey, as part of RBC Royal Bank

RBC Royal Bank[3]

- Canada's largest bank by assets and market capitalization, with broad leadership in financial services
- The 12th -largest bank globally based on market capitalization, with operations in 42 countries
- Approximately 79,000 full- and part-time employees serving more than 16 million clients worldwide
- Strong credit ratings in volatile markets: Moody's Aa3, S&P Aa-, Fitch AA, DBRS AA
- Named Best Global Retail Bank and Best Trade Finance Bank for the second consecutive year[4]

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[1] Investor Economics, April 2014.
[2] Investment Funds Institute of Canada, September 2013.
[3] All financial information is as of August 20, 2014. For the most up-to-date information, please contact us
[4] 2014 Retail Banker International.

“To invest successfully over a lifetime does not require a stratospheric I.Q., unusual business insight or inside information. What is needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework.” – Benjamin Graham

Take the next step – contact Michael today for a complimentary consultation.

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Wealth Management
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