MacLean Wealth Advantage

Wealth Management
Dominion Securities

Winter 2016

James MacLean
Portfolio Manager
416-842-1004
james.maclean@rbc.com

Joanne Young
Investment Advisor
416-842-1005
joanne.p.young@rbc.com

Jamie Gallagher
Associate Advisor
416-84 2-1006
jamie.gallagher@rbc.com

Kelly Burke
416-842-8591
Kelly.burke@rbc.com

MacLean Wealth Management of RBC Dominion Securities
200 Bay St. Suite 2500A
Royal Bank Plaza, South Tower
Toronto, ON M5J 2J2

1-1800-561-6431
Fax 416-842-0248
www.jamesmaclean.com

What an interesting time we live in

The Canadian dollar has dropped to a level not seen in over a decade. This has coincided with multi-year lows in the price of oil and other commodities. Experts expect that this will not last as demand and supply will come into a better balance by the end of the year.

Prime Minister Trudeau will be releasing his first budget shortly. Pressure is on to help kick start the economy through infrastructure spending and other programs.

Several countries are now in negative interest rates territory including Japan, Sweden, Denmark, Switzerland, and the European Central Bank. This has been done to help stimulate their economies by lowering borrowing costs and making their exports more competitive with a lower currency. More countries are expected to follow suit in the months ahead.

The Middle East continues to be a hot bed of hostility with tensions increasing between Iran and Saudi Arabia. The tide of the war on terror and rebels in Syria seems to be turning to the government's side under President Assad as Russia lends a helping hand.

The El Nino effect has brought us the warmest January on record globally. Here in the GTA we have seen firsthand the dramatic impact this is having on our winter as snow has been almost non-existent. La Nina is set to follow and may bring some areas the wettest on record.

Volatility continues in the stock markets around the world. Pundits feel this is just a normal market correction in an ongoing upward trend. Corporate profits continue to increase, unemployment is down and economic activity is moving ahead.

And finally, we have one of the most hotly contested U.S. Presidential races in many years as an odd mix of left and right leaning contender vie for the leadership of their respective parties. Still too close to call but at this time Donald Trump is the front runner on the Republican side and Hilary Clinton has a commanding lead for the Democrats.

Inside this issue we look at the Global Investment Outlook, review our managed portfolio account called A+ and explore Exchange Traded Funds (ETF's) that allow you to invest in areas around the world without the worry of movements in the Canadian dollar. Thank you for your interest and please let me know if you have any questions or comments.

The global investment outlook: Headwinds remain, with China and oil topping the list

The RBC Investment Strategy Committee

Concern regarding China's financial markets and slowing economy contributed to the sudden spike in market volatility.

These concerns are certainly legitimate given that China's economy generates a startling 33% of global economic growth even though it makes up only 13% of aggregate global GDP. However, it is important to keep in mind that the Chinese economy continues to grow at a rate that would be considered enviable almost anywhere else in the world. We have long maintained a below-consensus growth forecast for China, but do not expect a hard landing.

Oil prices are also grabbing headlines. After a brief revival in the early summer, oil prices have again slumped. This is wonderful news for some countries, and horrific for others. The main story remains the supply side where production is near an all-time high, forcing market participants to rethink when the global oil market will return to balance. Whereas the consensus was previously that equilibrium would be restored by early 2016, this now looks to be a 2017 proposition. We believe that West Texas oil prices can rise moderately from here, but probably not all the way back to US$60 per barrel in the near term.

In addition to China and oil prices, a number of other significant headwinds remain, much as they have in various combinations since the global financial crisis. Greek sovereign risks spiked higher during the past quarter, but have since settled back to a simmer. Other European political risks are notable but less intense. Financial-market weakness and volatility are naturally concerns at present, though we expect the first of the two will fade. Commodity-oriented risks – revolving mostly around resource-exporting countries and companies – may linger given a fundamental supply-demand mismatch. Lastly, there are a number of interest-rate and debt-related risks that could be triggered.

U.S. dollar bull market maturing

The U.S. dollar bull market is maturing as it enters its fifth year. Many investors expect continued dollar strength, and they may be correct given that previous dollar cycles lasted five to ten years. We look for further gains for the greenback even after a year of incredible dollar strength. The prospect of policy normalization by the U.S. Federal Reserve (Fed), coupled with expansionary monetary policies elsewhere, means that this bull market still has room to run. However, with the U.S. dollar no longer deeply undervalued and the prospect of volatility rising, our positions and willingness to take risk are appropriately smaller. Of the four major currencies we expect most weakness from the euro, the yen and the Canadian dollar, leaving the pound little changed in our forecasts.

Continue to prefer stocks over bonds

The valuation mismatch between stocks and bonds is sufficiently large to continue to warrant an overweight equity position, despite the risks described above. In fact, our analysis shows that returns for stocks could exceed those for fixed-income markets across most relevant time frames, with bonds producing low or even negative total returns for many quarters ahead. Over the past quarter, we increased the equity exposure in our recommended asset mix by two percentage points, sourcing the funds from bonds. For a balanced, global investor, we recommend an asset mix of 62% equities (strategic neutral position: 55%), and 36% fixed income (strategic neutral position: 40%), with the balance in cash.

Newsflash

- Under proposed legislation, starting January 1, 2016, the annual TFSA dollar limit for 2016 will decrease from **$10,000 to $5,500.**
- For the 2015 tax year, the maximum RRSP contribution is the lesser of **$24,930** or 18% of your prior year's earned income. For 2016, the maximum contribution is **$25,370.**

A+ Portfolios

A+ is an innovative investment program that gives you convenient access to a professionally managed, fully customized investment portfolio.

Providing convenience with confidence

With most investment programs, you are fit to the program. But with A+, the program is fit to you. Your A+ portfolio is individually crafted based on your unique needs for capital growth, investment income and asset preservation. Then, your A+ portfolio is professionally managed for you within strict parameters, freeing you to focus on your other important priorities with confidence.

Your customized A+ portfolio provides:

- The expertise of leading independent asset management firms, carefully assessed through in-depth research, and brought together in a coordinated, customized portfolio
- A sophisticated, tax-efficient portfolio that gives you direct ownership of the individual investments in your portfolio, providing greater control over taxable events
- The latest portfolio management technology that brings together multiple assets managers into a single, unified portfolio with consolidated reporting and sychronized asset allocation
- A proven investment discipline that ensures your portfolio is set, monitored and rebalanced according to your specific investment guidelines

Managing risk through enhanced diversification

Diversifying your investments is the golden rule for reducing risk. Your A+ portfolio benefits from three levels of diversification through our "multi-asset, multi-style, multi-manager" approach.

1. Multi-asset

First, we diversify your portfolio by asset class – between equities, fixed-income and cash – to help achieve your specific long-term investment objectives while managing risk.

2. Multi-style

Next, we diversify your portfolio by investment style, carefully combining portfolio managers who specialize in different investment styles, such as growth and value.

3. Multi-manager

Finally, we diversify your portfolio by investment manager, mitigating the risks associated with investing with a single asset manager.

Selecting world-class investment managers

As one of the leading financial services organizations in Canada, we have the ability to engage multiple independent, world-class investment managers. We employ rigorous due diligence to scrutinize and identify managers that have demonstrated long-term, consistent quality and merit. Ultimately, this helps ensure excellence and objectivity in the management of your investments.

Our recommendation combines the internal money management strengths of RBC with world-class, third-party money managers and research firms. We regularly monitor managers to uncover any deteriorating trends or other factors that can lead to excessive volatility or long-term underperformance.

Market outlook

	Current	YTD(%)	52 Week %	2015	2014
TSE Comp	12,813	-1.5	-15.6	-11.1	7.4
Dow Jones	16,391	-5.9	-8.9	-2.2	7.5
Nasdaq	4,505	-10	-8.5	5.7	13.4
S&P 500	1,917	-6.2	-8.6	-0.7	11.4
Crude Oil	29.70	-22.1	-50.7	-30.5	-45.9
Gold	1,226	15.5	-1.6	-10.4	-1.7
CAD Dollar	0.726	-0.5	-10.2	-16.0	-8.6

Rates as of February 22, 2016. Source RBC Dominion Securities

Investment alternatives

The following are some alternatives for U.S. and foreign exposure in your portfolio that eliminates most currency risk.

iShares Nasdaq 100 Index ETF (symbol XQQ)

These iShares seek to provide long-term capital growth by replicating the performance of the Nasdaq 100 Currency Hedged CAD Index and to hedge any resulting US dollar currency exposure back to the Canadian dollar. Top holdings are: Apple, Microsoft, Amazon, Alphabet, Facebook, Intel, Cisco & Comcast.

iShares Global Healthcare ETF (Symbol IXJ)

These iShares seek to provide long-term capital growth by replicating the performance of the S&P Global 1200 Health Care Sector Canadian Dollar Hedged index. Top holdings consist of: Johnson & Johnson, Novartis, Pfizer, Roche Holdings, Gilead Science, Merck, Sanofi SA and United Health Group.

iShares S&P Global Consumer Discretionary Index ETF (Symbol XCD)

This ETF seeks to provide long-term capital growth by replicating the performance of the S&P Global 1200 Consumer Discretionary Canadian Dollar Index. Top holdings are: Amazon.com, Toyota, Walt Disney, Home Depot, Comcast, McDonalds, Starbucks, Nike, Daimler and Lowes.

iShares Factor Select MSCI EAFE Index ETF (Symbol XFF)

This fund will primarily invest in securities of developed markets excluding the U.S. and Canada. This fund tracks the performance of the MSCI EAFE Diversified Multiple – Factor 100% Hedged to CAD Index and designed to outperform the market benchmark. Selects securities based on value, momentum, quality and low size. Top holdings are Imperial Tobacco, AXA, BT Group, Swiss RE, NTT Corp. Shire, Bae Systems and RELX.

Vanguard S&P 500 Index ETF (Symbol VSP)

This ETF is a market-capitalization-weighted index that is designed to represent the returns of large cap US stocks, with the US dollar exposure of the securities hedged to the Canadian dollar. Top holdings included: Apple, Alphabet, Microsoft, Exxon Mobil, Johnson & Johnson, GE, Facebook and Wells Fargo

Canadian economic indicators	2015A	2016F	2017F
10 year yield (%)	1.56	1.96	2.30
Real GDP (%)	1.20	1.80	2.10
Consumer price index (%)	1.20	1.80	2.00
Unemployment rate (%)	6.90	6.90	6.70

Rates as of February 22, 2016. Source RBC Dominion Securities.

Wealth Management
Dominion Securities