RBC Dominion Securities Inc.

KING CLARKE WEALTH MANAGEMENT'S

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Quarterly Newsletter

Views and opinions
for the clients and friends of

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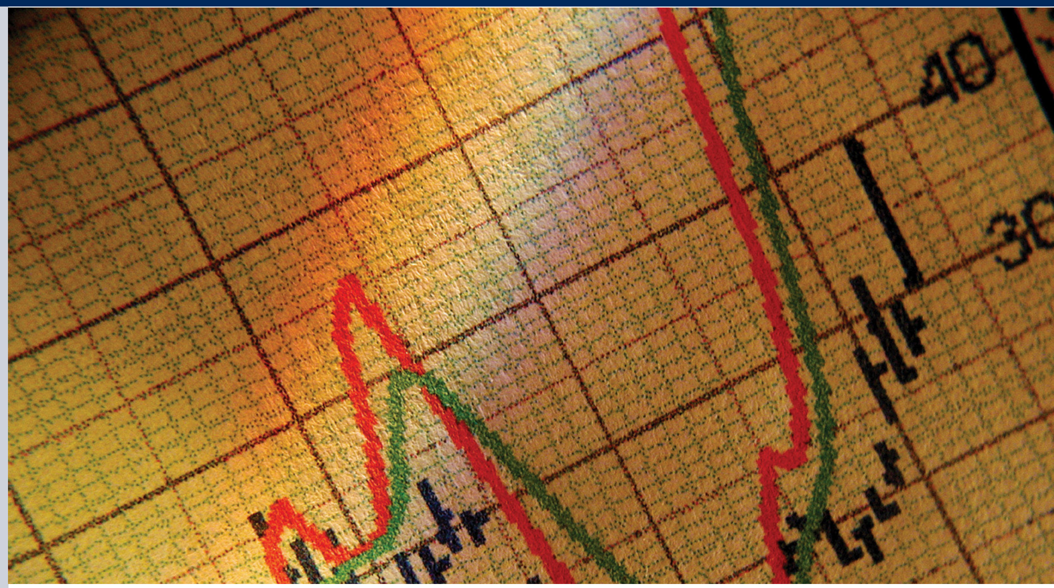

What Moved The Markets

October proved to be a volatile month as financial markets were moved by concerns around a deceleration in global growth. Market volatility spiked sharply in the middle of the month, rising to levels not seen since the height of the eurozone crisis more than two years ago.

The European Central Bank (ECB) Governing Council held course and left rates unchanged and did not announce any new additional policy measures, much to the disappointment of some market participants,. The Federal Reserve announced that its bond purchase program would end at the end of October, but the size of its balance sheet would be maintained through the reinvestment of maturing securities. The Fed did reiterate its pledge to keep interest rates low for a 'considerable period'' of time in what was otherwise a more hawkish statement. The Bank of Canada's (BoC) October policy meeting came and went without much fanfare although the bank's decision to drop reference to a "neutral bias" in its forward guidance left some questioning whether the BoC had also become more hawkish. On the last day of the month, global equity markets were buoyed by the announcement from the Bank of Japan that it would dramatically step up its version of quantitative easing. As a result, despite sharp losses mid-month, U.S. indices closed the month at all-time highs.

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Gold stocks on the S&P/TSX declined in October for the second month in a row, nearly 20%, and, after posting strong gains early in the year, are now down 14% over all year to date.

Fixed Income-Specific Developments

The yield on the U.S. 10-year Treasury ended the month at 2.31%, which was ~20 bps lower than the end of September. Despite encouraging unemployment data (5.9% unemployment rate vs. consensus 6.1%) and non-farm payroll (248k jobs created vs consensus 215k) earlier this month, weak U.S. retail sales number (-0.3% vs. consensus -0.1%) triggered a substantial rally in government bonds. Investors were left to digest an FOMC statement that was hawkish in tone given constructive comments about the U.S. economy in general and the labour market in particular. The FOMC said that job gains had been "solid" and it is worth noting that its assessment of household spending was not downgraded despite a disappointing September retail sales report. The FOMC also did not make any references to slower global growth, which had been an area of focus in the minutes from the FOMC's September meeting.

In Canada, the yield on the benchmark 10-year bond dropped 10 basis points to 2.05%. The domestic data prints were generally strong led by a rebound in payrolls as 74k jobs were created in September (consensus 20k). The underlying components of the employment data were also strong as almost all of the hiring was concentrated in full-time positions and the unemployment rate fell to 6.8% (consensus 7.0%). The Bank of Canada left its overnight rate unchanged at 1% and dropped explicit reference to "neutral" in the forward looking statement. In a fairly balanced statement, Bank of Canada Governor, Stephen Poloz did note that lower oil prices may shave about a quarter-point from the country's economic growth in 2015.

Gobal Developments

In the euro area, headline industrial production fell 1.8% in August, which was lower than the consensus estimates of a drop of 1.6%. European Central Bank President Mario Draghi acknowledged the loss of momentum seen in the most recent economic data, leading many to question the strength of the Eurozone recovery. The ECB decided to leave interest rates unchanged and announced no additional policy measures in its October policy meeting. Further operational details of the covered bond and ABS program were provided, but no numerical target for purchases under these programs were announced. Whether the ECB will further expand its asset purchases in the coming months will depend on the level of inflation and the broader macroeconomic outlook, as well as developments in longer-term inflation expectations over the coming months.

In Brazil, President Dilma Rousseff was re-elected for a second four-year term by a small margin. Investors perceived the election as unfavourable as this is viewed as a step away from much needed policy reforms. The day following the election, the Ibovespa index dropped 2.8%, while the Brazilian real sunk almost 2% to a nine-year low.

News about the spread of Ebola virus was a focus of market participants in October. Despite rising media coverage, Ebola seems to have had little discernible effect on U.S. consumer sentiment to date. Most experts continue to believe the likelihood of an outbreak of Ebola in North America is very low; however, the situation in West Africa is likely to remain a significant concern for some time to come.

Global indices were mostly positive for the month of October. Hong Kong's Hang Seng index led the markets with a 4.8% gain. The Sensex Index in India (+4.7%), Australia's ASX 200 (+4.4%), the S&P 500 in the U.S. (+2.4%), and China's Shanghai Index (+2.4%) also gained in October. Japan's Nikkei and Brazil's Bovespa index also posted positive results for the month, with 1.5% and 0.9% gains, respectively. The S&P/TSX posted the largest decline, down 2.1%, along with Germany's DAX also declining 1.6%, and UK's FTSE 100 down 1.0%. The MSCI World Index gained 0.7% overall in October.

Testamentary trusts

For families concerned about intergenerational wealth transfer, a testamentary trust is an indispensable tool.

A testamentary trust is a type of trust established through your Will that enables you to give assets to your beneficiaries with certain conditions that you have specified, while providing them with income tax advantages.

In a trust, you specify an amount of money or other property to be held for a specified period for beneficiaries you have identified and on the terms directed by you. For example, you may wish to leave your children a portion of your estate, but you may feel that they should not receive their inheritance until they are old enough to manage it responsibly. Through your Will you would direct your chosen trustees to hold and invest the inheritance in a trust for your children until they reach the age that you have specified. Alternatively, you can give your trustee full discretion on the amount and timing of trust distributions to the beneficiaries.

Testamentary trusts are generally created with assets passing through one's estate. Therefore, probate taxes (negligible in Alberta and Quebec) will likely have to be paid. However, there will be no probate tax for a properly structured testamentary trust funded with insurance proceeds.

Testamentary trust vs. outright inheritance

One of the major benefits of establishing a testamentary trust is the annual income tax savings for the surviving beneficiaries. These income tax benefits are not available to beneficiaries who receive outright inheritances. Taxable income earned in a testamentary trust can be subject to the same graduated tax rates as an individual taxpayer.

Since the income earned within a testamentary trust can be taxed on a separate tax return at graduated tax rates (although the basic exemption is not allowed), an income-splitting opportunity arises for each beneficiary.

Assume an adult child is in the top marginal tax bracket of approximately 46% (varies by province). Upon the parent's death, this child is expected to receive an outright inheritance of approximately $500,000. Further assume that this inheritance will be invested by the child and will produce annual taxable income of 5% or $25,000 per year. The after-tax income earned this way would only be $13,500 – compared to $19,000 if the inheritance had been transferred to a testamentary trust instead.

If you intend to have your assets pass through your estate so they can fund a testamentary trust, then Joint Tenancy with Rights of Survivorship accounts (not applicable in Quebec)

may not be appropriate, and you may also need to restructure beneficiary designations. Furthermore, if you are a high-income earner and you have elderly parents that you know will be providing you with an inheritance, consider speaking to your parents about the benefits of including a testamentary trust provision in their Will.

Not just tax benefits

In addition to the tax benefits, there are many reasons why a testamentary trust may be advantageous. A testamentary trust provision in the Will can make sense in the following scenarios:

> Individuals in second marriages

> Disabled or minor beneficiaries

> Parent is concerned about spendthrift beneficiaries

> Parent is concerned about inheritance being accessed by son- or daughter-in-law

> U.S. citizens

> Beneficiaries are high-income earners or will receive a large inheritance

For more information, ask us for a copy of the article titled "Testamentary Trusts".

This article appears in our guidebook, Family Wealth Management – Ten Strategies to Build and Protect Your Family's Wealth. Please contact us for a complimentary copy.

All About The Team

Ruby joined RBC Dominion Securities in May 2011 with 10 years of extensive banking background. Ruby has completed her Canadian Securities Course and is a fully licensed Associate.

An important part of the King Clarke Wealth Management team, Ruby assists our clients with their administrative needs and ensures that they receive exceptional service.

Ruby has lived in White Rock for the last 10 years. Ruby became a grandma this year welcoming her first grandson a very wonderful addition to the family.

For Ruby, life is all about being with family and cherishing each and every moment.