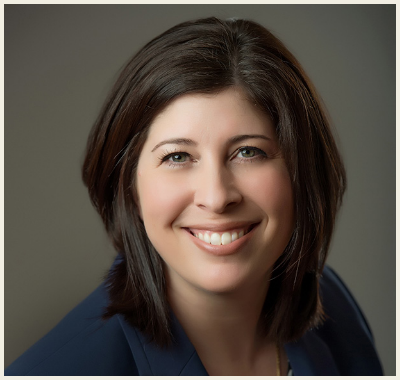
RBC Dominion Securities Inc.

Lara Austin MindingMoney

APRIL/MAY 2015



For the Friends and Clients of Lara Austin of RBC Dominion Securities

Lara D. Austin
BA (Hons.), CIM, FMA
Investment & Wealth Advisor
250-334-5606
lara.austin@rbc.com

Rayanne Renooy
Administrative Assistant
250-334-5604
rayanne.renooy@rbc.com

www.LaraAustin.com

RBC Dominion Securities
777A Fitzgerald Avenue
Courtenay, BC V9N 2R4

In This Issue

Perspectives

This past quarter, the Bank of Canada reduced rates. A surprise to many and a disappointment to GIC investors across the nation. When I call a client to"roll over a GIC," or someone asks what I can offer on cash… it nearly pains me to list my "best rates" on the 41 issuers we carry. The saving grace is to maintain some perspective of where interest rates are in the rest of the world. Obviously to make fair comparisons we have to also consider the inflation rates those countries have as well.

At times like these, investors may feel compelled to chase yield and look for investments offering a higher return. While "Plain Vanilla GICs" still exist, the world of GICs has become more complicated with "Step Rate" GICs and "Market Linked" GICs and even Principal Protected Notes. It is important to ask the right questions of your investment professional and understand the mechanics of what you are investing in…not just ask 'do I get my principal back?'

CRM2. You may not have heard of it. But it is coming. Regulators around the world are making massive adjustments to the transparency of fees and commissions charged to investors. Investment professionals like myself endorse transparency. We hope our clients see the value in the consistency of service, regular reviews and additional resources and support. I do know that the same fees and charges happen elsewhere and lack the accompanying service level. While I reviewed the "ins and outs"of fees in the July/Aug 2014 issue of this newsletter, it made sense to approach once again, from a different perspective how CRM2 may change the industry and investor behavior.

As my longtime readers will attest, I fully endorse financial literacy. This newsletter is meant to supplement our review time together, along with my publically accessible presentations. As investors better understand how they are being charged, perhaps they will make the time with their professional more purposeful and expect a higher level of service, competency and resources. I think the industry needs to do a better job at providing financial literacy to the public at large', but mandating changes in certain areas may not serve all clients well. It remains to be seen.

As always… if your neighbour, friend, or family member has experienced a major financial event, they have sold a business, moved to the Valley and downsized a home, divorced, widowed, inherited, won 649 (whatever the case may be), I am happy to help them assess their options and determine their best course of action. This is a complimentary service, regardless of whether it transitions into a professional relationship.

Thank You for your readership. Any questions or comments are welcome.
Cheers,

Lara D. Austin

RBC Wealth Management
Dominion Securities

THE BRIEF
On The Client Relationship Model Dubbed "CRM2"

Initiated in July 2013, a two year phased in project that will result in much greater Fee transparency by July 2015 for Canadian investors. Introduced by Canadian Securities Administrators, the aim is to increase investor awareness of the costs and performance of their investments. It impacts clients of Investment Dealers, Mutual Fund Dealers and Banks. It does NOT cover insurance based products in Canada at this time.

Clients will receive separate reporting by July 2016 that details:

1. Annual Charges and Compensation Report – clients will see what they paid for in operating and transaction charges. How much was paid to the dealer by mutual fund companies, and a description of trailing commissions.

2. Investment Performance Report – Market value (beginning and end period) of a client's account will be visible in chart format. A table showing annualized returns at 1,3,5 and 10 year periods and an explanation of the calculation method (there are various methods used by different companies and this standardizes the methodology).

Fee Changes Around The World

Following the financial crisis of 2008, many regulators around the world initiated programs to address fee transparency and how fees were charged.

U.K. – system comprised of mainly smaller companies and door-to-door representatives. On January 2013 a total ban of embedded fees came into effect. Now advisors and clients determine a fee structure based on a fixed fee, hourly rate or percent of assets under management. Advisors now have minimum qualification standards to meet.

Continental Europe – system comprised mainly (90%) of banks as distributors. Recent regulations were designed to ensure that investors know what they are buying, what they are paying for, who is receiving the money and what services they should expect in return.

Australia – in July 2013 rules were introduced similar to the U.K. In addition, advisors renegotiate their fees every two years and can only charge if there is an ongoing service. Advisors are allowed to "scale advice" design level of service for clients' needs; therefore, limiting advice to those who cannot or will not pay for it. Next on agenda is raising competence and education standards.

U.S. – U.S. regulators have passed new rules and continue to investigate the best way to protect U.S. Investors. They have resisted across-the-board solutions and favour a wide range of options.

Lessons Learned, Unintended Consequences And Issues To Consider

Fewer advisors – in Australia and the U.K., a combination of lack of professional standards and weak regulation has created serious issues. Public perception of advice is so low, there may be difficulty attracting new recruits (advisors). Following the introduction of the regulations, the number of advisors dropped 20%.

Unfair playing field – in Australia, the insurance industry was not covered in the new rules and now new controversy is emerging that will likely lead to further regulations.

Consolidation of the industry – the "burden of compliance" – the expense and bureaucracy required to follow all the rules is growing. It is expected that fewer and bigger players will dominate; there may be a greater concentration of a smaller number of products, which leads to less innovation. This has already been observed in Australia. The upside is that it is easier for the regulators to keep their eye on a smaller number of products!

Access to advice for average investors – in the U.K. it has already been noted that institutions have decided to provide advice only to high net worth clients and those with less to invest are moved to "robo-advisors" discount internet accounts and "guided sales" that provide only generalized investment information. There are whole changes about what advice means.

Fee-based abuses – while fee-based advice is being universally adopted, ironically the U.S. SEC (securities commission) is looking at possible abuses on the fee-based side. Are the charges actually being justified by the services provided? There is an assumption that the fee-based solution is automatically cheaper and fairer than embedded fees and it may not be in many cases.

Risk of avoiding fees – cost and availability of advice is changing just as a new generation of complex products is emerging to deal with fixed-income issues.

Continued page 3...

Professionals are questioning if advice alternatives are being offered to consumers. "The advisor is afraid, so the advisor does nothing."

If charged on an hourly system: the average hourly rate of an advisor is $200 to $300/hour. Professionals are concerned that a client will fail to reach out at a critical moment in their life, for fear of charges.

Further information on this topic can be found at:

https://www.ific.ca/en/events/ific-annual-leadership-conference-2014/

https://advisor.rbcgam.com/public/voice-of-advice/default.aspx

Interest Rates - A Worldwide Perspective

An interest rate is the price a borrower pays for the use of money they borrow from a lender, for instance a small company might borrow capital from a bank to buy new assets for their business, and the return a lender receives for deferring the use of funds, by lending it to the borrower.

Interest rates are fundamental to a capitalist society and are normally expressed as a percentage rate over the period of one Gregorian year.

Interest rate targets are also a vital tool of monetary policy and are taken into account when dealing with variables like investment, inflation, and unemployment.

Reasons for interest rate change

Deferred consumption
When money is loaned, the lender is delaying spending the money on consumption goods. Since according to time preference theory people prefer goods now to goods later, in a free market there will be a positive interest rate.

Inflationary expectations
Most economies generally exhibit inflation, meaning a given amount of money buys fewer goods in the future than it will now. The borrower needs to compensate the lender for this.

Alternative investments
The lender has a choice between using his money in different investments. If he chooses one, he forgoes the returns from all the others. Different investments effectively compete for funds.

Risks of investment
There is always a risk that the borrower will go bankrupt, abscond, or otherwise default on the loan.

This means that a lender generally charges a risk premium to ensure that, across his investments, he is compensated for those that fail.

Liquidity preference
People prefer to have their resources available in a form that can immediately be exchanged, rather than a form that takes time or money to realize.

Taxes
Because some of the gains from interest may be subject to taxes, the lender may insist on a higher rate to make up for this loss.

Continued page 4...

Interest Rates - A Worldwide Perspective... continued

Output and unemployment

Interest rates are the main determinant of investment on a macroeconomic scale. Broadly speaking, if interest rates increase across the board, investment decreases which causes a fall in national income. A government institution, usually a central bank, can lend money to financial institutions to influence their interest rates as the main tool of monetary policy. Usually central bank interest rates are lower than commercial interest rates since banks borrow money from the central bank then lend the money at a higher rate to generate most of their profit. By altering interest rates, the government institution is able to affect the interest rates faced by everyone who wants to borrow money for economic investment. Investment can change rapidly in response to changes in interest rates and the total output.

Money and inflation

Loans, bonds, and shares have some of the characteristics of money and are included in the broad money supply. By setting it, the government institution can affect the markets to alter the total of loans, bonds and shares issued. Generally speaking, a higher real interest rate reduces the broad money supply. Through the quantity theory of money, increases in the money supply lead to inflation.

A snapshot of Worldwide Interest Rates….

Country	Inflation	Currency	% Interest (1 year deposit)	GDP per Capita
Belarus	19.0	BYR	29.00	15753
Argentina	22.00	ARS	25.00	15854
India	6.80	INR	9.09	3275
Russia	8.90	RUB	10.00	14913
Canada	2.80	CAD	1.55	37947
United States	1.50	USD	1.20	45943
Switzerland	0.40	CHF	0.75	40484
Japan	0.40	JPY	0.20	32554

Source: http://www.deposits.org/world-deposit-rates.html (Live feed)