

Richard's Report

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PREFERRED SHARES: A TURN FOR BETTER

by Mikhial Pasic

Toronto, Canada | RBC Dominion Securities Inc.

After being beaten up for more than a year, the worst for the preferred share market may have passed, in our opinion. A recovery in the new issue market, which has seen an influx of new money, has been a welcome signal. We see compelling opportunities for investors to add exposure to preferred shares.

The preferred share market has recently exhibited signs that a sustainable bottom has formed after a turbulent 2015 and difficult start to 2016. Some of the most promising indications have emerged from the new issue market where we have witnessed new money coming into the market and a broadening of the investor base. Meanwhile, prices of newly issued securities have remained stable even as more supply has come to market. While some investors may take comfort in knowing this market is finally showing signs of stabilizing, others with capital to deploy may want to consider select pockets of the market where we continue to see compelling value.

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RICHARD'S STOCK PICKS

Have you ever wondered how I choose which stocks to buy?
Well, let me tell you....

Please join me for an information session covering my stock selection process on **Thursday, May 12, 2016** from 2:00 p.m. - 4:00 p.m. in our boardroom. I will share the criteria I look at when selecting stocks for your portfolios. Please call Lesley at 705-743-4337 to reserve a spot. Space is limited for this session, however, we will offer another session if needed.



RBC Wealth Management
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FRESH CAPITAL FOR NEW ISSUES

There has been fresh capital entering the preferred share market to purchase newly issued securities, a welcome departure from 2015, when sales of existing holdings were the source of capital for new issues. Recent issues completed in December (RY.Q and BNS.E) have continued to trade above their \$25 issue price even though subsequent offerings from the same issuers have possessed higher reset spreads. This suggests to us that investors are participating in new issue deals and holding on to their existing positions because valuations have become so compelling.

Another piece of evidence that points to fresh capital coming into the market has been the size of deals completed by the Canadian banks (nearly one-third of the overall preferred market). Canadian banks have successfully completed six deals in the past three months that raised an average of nearly \$600M after not trying any deals of such size since January 2015. Success completing these deals suggests the banks are now ahead of schedule as they move to issue \$22B worth of securities to replace legacy issues that will likely need to be retired between now and 2022 under Basel 3 regulations.

BROADENING OF DEMAND EXEMPLIFIES BETTER TONE

It is also noteworthy that many of recently issued preferred share deals have drawn interest from institutional investors; a further indication that cheap valuations are drawing fresh

capital into the market. Institutional demand is evidenced by the fact the average deal size on bank rate-reset new issues over the last three months has been nearly double the level recorded in the first half of 2015. In our view, a big driver of this stepped-up interest is the large-yield advantage preferred shares offer over corporate bonds. Newly issued preferred shares, in our opinion, are the best way for institutional investors to get meaningful exposure to the asset class since liquidity in the secondary market is not always sufficient.

POSITIONING RECOMMENDATION: SELECT MIX OF RATE RESET AND PERPETUAL ISSUES

We believe the best way for investors to get exposure to preferred shares is through a basket of rate reset and perpetual issues. In a world where the direction of interest rates over the next five years is very uncertain, we believe such an approach makes sense as it will deliver investors a 5%-7% average yield provided the yield on the Government of Canada 5-year bond yield is between 0% and 1.5%. Select rate reset securities that are trading well below par provide an attractive level of income and the potential for worthwhile capital gains should interest rates rise. Conversely, we believe that high-dividend straight perpetual preferred shares and recently issued rate resets with large reset spreads should be a more-stable source of income in the event rates remain low for an extended period of time.





WHAT'S INCLUDED IN YOUR RELATIONSHIP WITH US?

Our Commitment to Providing Value

We are pleased to offer you a wide range of investment and wealth management services, many of which are complimentary to you as a valued client.

DISCOVERY

- Explore your current financial situation, portfolio and investment objectives
- Establish your investment and wealth management goals
- Determine your tolerance for risk and market fluctuation

STRATEGY

- Develop your individual Investment Policy Statement
- Build customized portfolios designed to meet your investment goals
- Establish your needs for tax, estate, insurance and charitable gift planning
- Provide research, commentary and information on specific holdings, markets or economies
- Collaborate with your existing professional advisors, such as lawyers and accountants, to integrate your investment plans
- Introduce, as appropriate, a full suite of services from our RBC partners

ENHANCED WEALTH MANAGEMENT SERVICES

- Access the expertise of our RBC Wealth Management Services team, which includes highly accredited lawyers, accountants and financial planning specialists
- Comprehensive financial planning (Compass Financial Plan)
- Family Snapshot™ Wealth Management Opportunities Report
- Will and estate consulting
- Insurance-based wealth enhancement assessment
- Business succession planning
- Corporate re-organization advice
- Family wealth management

INVESTMENT SOLUTIONS

- Proprietary and third-party investment products, including mutual funds and portfolio services
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- Canada's largest inventory of fixed-income and money market instruments, including T-bills, GICs, government bonds and corporate bonds

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WHAT'S INCLUDED IN YOUR RELATIONSHIP WITH US?

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INVESTMENT PORTFOLIO SERVICES

- Ongoing personal advice
- Buy/sell recommendations
- Scheduled portfolio reviews
- Portfolio monitoring
- Portfolio rebalancing
- Safekeeping (custody costs waived)
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- Automatic contributions and withdrawals, if needed
- Automatic mutual fund purchase or redemption plans
- Electronic funds transfers
- Registered estate processing, tax reporting and T3 returns
- Old certificate current status and value research
- Interest on cash balances

REPORTING

- DS Online private client website, providing secure 24/7 account access, exclusive investment research, quarterly market outlook, RBC Economics publications, Reuters market news, real-time quotes, customized watch lists and more

- Consolidated view of all your RBC accounts and ability to transfer funds between accounts through DS Online
- Paperless eDocuments through DS Online to reduce your paperwork and help us help the environment, including a seven-year archive starting with your October 2007 statements and trade confirmations and prospectuses as of December 2011
- Quarterly account statements (or monthly when there is trading activity in an account)
- Annual consolidated tax reporting, including dispositions with book costs
- Quarterly performance reporting

RESEARCH AND INFORMATION SERVICES

- RBC Wealth Management Services' library of publications and articles on a wide range of tax, retirement and estate planning topics
- Access to the broadest research in Canada for domestic and global markets, including RBC Capital Markets, Standard & Poor's, Valueline, JP Morgan, and independent Veritas exclusive to RBC
- Global Insight, Morning Market Comments, Wealth Management Review, etc.



STAY TUNED... DS ONLINE SECURE TWO-WAY MESSAGING

Our online technology team is working on new functionality that will allow us to communicate with clients through the secure and authenticated DS Online platform.

We are excited about this improvement as it will facilitate sending and receiving secure messages, with or without attachments, using DS Online rather than sending emails using the current secure Webmail password solution.

If you are not already enrolled in DS Online, please contact us. We will be happy to assist you with the registration process.

We will communicate more details when a rollout date is announced.

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