RBC Dominion Securities Inc.

Richard's Report

FALL 2015

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What Moved the Markets

Market volatility intensified in September as fears of slower global growth resurfaced and weakness in commodities spilled into other sectors of the corporate bond market. Closing out the month, major equity indices trended lower as risk-off sentiment drove investors into the safety of government bonds. The much-anticipated Federal Open Market Committee (FOMC) meeting revealed the Fed was placing greater emphasis on global economic and financial developments, which caused some to question whether financial stability was now a third mandate of the central bank. It now appears that the first rate increase from the U.S. Federal Reserve may come in December. A broad sell-off in biotech stocks also hindered investor confidence as talks of potential price controls for the pharmaceutical industry developed.

In Canada, the Bank of Canada left its overnight target rate unchanged, but noted that there is "some spillover to the rest of the economy" from lower oil and commodity prices. The U.S. dollar continued to strengthen against the Canadian dollar, hitting fresh highs while crude stabilized around $45/barrel after hitting multi-year lows in August.

North American indices continued to decline in September, with the S&P/TSX posting a loss of 3.7% and the S&P 500 falling 2.5%. For the S&P/TSX, sector performance was mixed (5 of 10 sectors finished the month in negative territory), but a steep loss in Healthcare (-22%) alongside declines in Energy (-8.7%) and Materials (-9.6%) dragged the entire index down. Eight out of 10 sectors for the S&P 500 were in the red, with weakness in Materials (-7.4%) and Energy (-6.7%) more than offsetting the lone positive performers, Utilities (2.9%) and Consumer Staples (0.5%). Of note, Japan's Nikkei is now the only major global index to remain in positive territory year-to-date, up 1.1% for the year despite losing 7.5% during the month.

With an overall balanced statement, the Bank of Canada kept its overnight target rate steady at 50bps as Governor Poloz predicted an economic rebound in the third quarter. The Canadian economy grew better than expected in July at 0.8% (Est. 0.7%). Data from earlier this month revealed that second quarter GDP declined by 0.5% (Est. -1.0%). Although this trend marks a "technical" recession (two consecutive quarters of negative growth), most economists expect this recession to be short-lived as earlier policy changes work through the economy. An uptick in exports combined with the resilience of full-time job additions

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support further recovery through the second half of the year. Furthermore, cheaper fuel and lower interest rates provided a boost to consumers and will serve as an additional tailwind. That said, the futures market is still pricing in a 15% probability of a rate cut before the end of the year.

DON'T SWEAT THE SEPTEMBER SWOON

By Kelly Bogdanov – San Francisco

Here is an article published by RBC Wealth Management that you might find of interest that addresses seasonal issues as a factor that may be further contributing to market volatility.

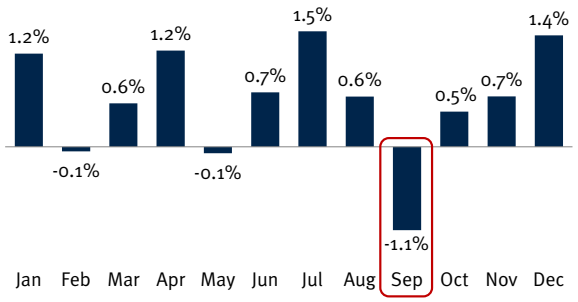
Uncertainty about the Fed's direction and other global economic crosscurrents have markets a bit on edge. But investors shouldn't overreact because history tells us that September's weakness isn't surprising.

There's no doubt uncertainty about Federal Reserve policy, China, and the global economy have been weighing on equity markets recently. There is another source of weakness that has largely been overlooked. We believe seasonal forces are also pressuring equities.

Historically, September has been the worst-performing month—by a long shot—for many equity markets.

The U.S. Market Tends to Struggle the Most in September

S&P 500 Average Monthly Performance Since 1928



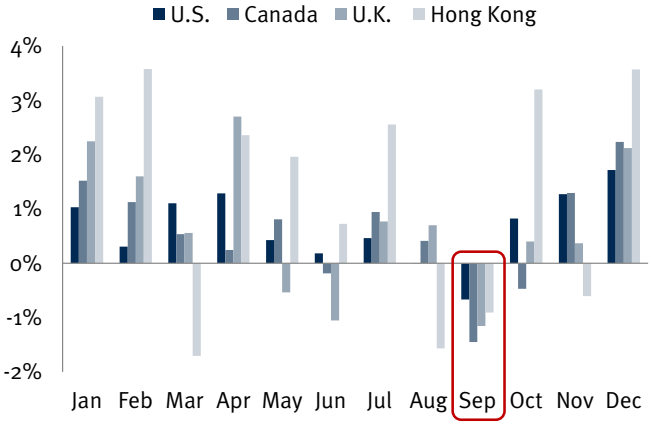
Source - RBC Wealth Management, Bloomberg; monthly data through 8/31/15

Since 1928, the U.S. S&P 500 Index has declined 1.1%, on average, in September. That may not seem like much of a drop, but it significantly underperforms other months (see chart).

Of course, the September swoon doesn't happen year in and year out; there is a lot of variation around the average data. More often than not, though, September is challenging for equity markets and is responsible for many of the worst monthly losses on record.

September Struggles Are a Global Phenomenon

Average Monthly Performance of Select Indexes Since 1970*



*Indexes shown: S&P 500 (U.S.); S&P/TSX (Canada); FTSE All-Share (U.K.); Hang Sang (Hong Kong)
Source - RBC Wealth Management, Bloomberg; monthly data through 8/31/15

This isn't just a U.S. phenomenon. Stocks in Canada, the U.K., and Hong Kong—in addition to markets elsewhere—also tend to struggle. Since 1970, the TSX, FTSE All-Share, and Hang Seng have fallen by an average of 1.5%, 1.2%, and 0.9%, respectively, in September (see chart).

There is no single, specific "reason" we can point to as why this tends to occur. There are, however, factors that likely play important roles.

We believe one contributing factor is the fiscal year schedule of many mutual funds. Institutions tend to clean up their portfolios in September and October before the fiscal year ends by selling their worst-performing stocks. This process is known as "window dressing." As they sell, the weakest stocks usually fall even further. This can create volatility and hold back the major equity indexes.

Tax-loss selling also plays a role in September, and tends to be exacerbated when the broad equity indexes are in negative territory for the year and especially when key sectors have suffered major declines. This year, tax-loss

Don't Sweat the September Swoon

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selling is occurring in many equity markets due to the severe decline in energy and materials stocks, and to a lesser extent industrial stocks. Tax-loss selling can further pressure troubled sectors and the broader markets they are tied to. The process can stretch through December.

Rather than view the global market's recent weakness as unusual, we view it as typical of previous seasonal patterns. Given the headwinds—the Fed, China, global growth concerns, "window dressing," and tax-loss selling—it would be unusual for equity markets to sail through September. From our perspective, September stress is not a reason to adjust portfolio allocations. As long as the world's largest economy can keep growing, we believe investors should stick to their long-term allocation plans.

DS Online Enhancements in the Works

Our technology group is working on adding functionality to DS Online so that we can securely communicate and share documents with clients, such as reports, proposals and forms. We are excited about these changes coming and will communicate more details when they are known.

View Your Statements Electronically With eDocuments

Go paperless with eDocuments to reduce your paperwork, while helping us reduce our impact on the environment.

With eDocuments, you can securely view your RBC Dominion Securities account statements, trade confirmations and prospectuses in Adobe PDF format from the convenience of your personal computer, smartphone or tablet. By choosing eDocuments, you have less paperwork to file or shred, saving you time and helping us reduce our environmental impact. Plus, you can quickly access a seven-year archive of your documents, starting with the October 2007 statement and December 2011 trade confirmations and prospectuses.

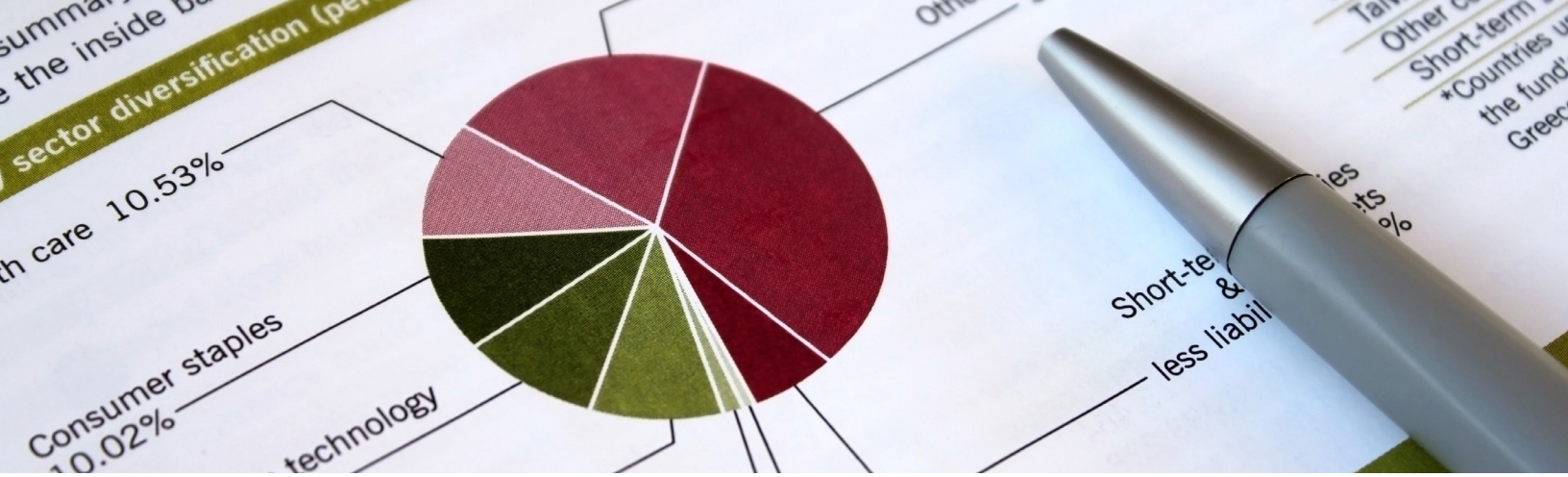
The Choice Is Yours

You can choose either eDocuments or regular paper documents – it's up to you. If you want to switch to eDocuments, please call us. If you'd rather receive paper documents instead, do nothing – they will continue to come in the mail as before.

Accessing Your eDocuments

- For personal accounts, simply log in to DS Online and click on the "View and Manage Documents" link at the top of the Summary page. If you're not signed up for DS Online yet, just contact us and we'll set you up.
- For business and corporate accounts, get in touch with us first to complete a consent form, then you can follow the same steps as personal accounts to retrieve your documents.

To learn more about eDocuments or DS Online, please contact us.



Providing Greater Clarity with CRM2

What the Client Relationship Model 2 means to you

You may have heard about it in the news – the Client Relationship Model 2, or simply "CRM2." CRM2 is a new set of industry regulations meant to provide investors with more details on their investment costs and performance. It was developed by the Canadian Securities Administrators, an organization representing Canada's investment industry regulators. All investment firms, including RBC Dominion Securities, will be providing these additional details on your existing statements and in two new reports that will be delivered to you.

The upcoming changes take effect in two stages with the first one starting this year. By December 2015, account statements are required to show a number of additional statement details such as the original or "book" cost of all securities on the statement and, whether mutual funds held in the account may be subject to deferred sales charges.

For our clients, this should be business as usual as RBC Dominion Securities has already been delivering most of this information every quarter. But for some investors in Canada, the new details on statements will provide more information than they are used to receiving.

The more significant changes will occur by mid-2017, when two new reports will be delivered to clients:

1. One report will disclose the costs paid by the client to the firm and other compensation received by the firm in relation to services provided to the client from each account annually.
2. A second report – an annual performance report – will show an account's returns over certain time periods. Notably, this report will show "money-weighted" rates of return. This is a different way of calculating investment performance than the "time-weighted" method that is currently used by RBC Dominion Securities and across the industry. Some think of money-weighted as a "personal" rate of return because it factors in the impact of the amount and timing of money you deposit into or take out of your account, whereas time-weighted does not.

The effect of these two new reports will be to provide investors with a better understanding of what they are receiving for the money they are paying their advisor's firm for the products and services they receive.

As always, our primary objective is for you to achieve your financial goals, but we also want you to understand the value my team and RBC Dominion Securities can provide you with on that journey.

You will hear more about CRM2 over the coming year and in regular updates from me. We fully support these initiatives as they reinforce both RBC Dominion Securities' and our team's commitment to transparency and full disclosure.

If you have questions about the new reports or CRM2 in general, please do not hesitate to call us at any time.