

# Money Matters



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Thoughts from our guest contributor, Matt Barasch, Vice President, Portfolio Management & Head of Canadian Equities

2016 has gotten off to a rough start, leaving some to wonder whether we are on the precipice of a deeper downturn. While there are lots of scary headlines out there, which would even give the bravest of us some pause, we continue to believe that the overall outlook remains positive. Further, as markets often do, many high quality businesses with strong management teams, cash flows and balance sheets have gone “on sale” as fear takes over and many investors flee for the exits. These types of opportunities to add to or initiate positions in good businesses do not arise very often, so rather than following the herd, we believe the market is presenting opportunity.

The global economy faces a number of challenges at the present time. China, which had been an engine for global growth for going on two decades, has seen its economy slow considerably as it transitions from an investment-based economy to a more stable consumption-based economy. These transitions take time – often measured in decades – and are often accompanied by periods of increased volatility. Meanwhile, it is a U.S. presidential election year, which often see increased bumpiness as investors grapple with first – who will be the candidates - and later - who will win.

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We can probably all agree that this year's election has a bit of an added twist as some of the candidates that have gained significant support (we will not name names as this is a family publication) have put forward policies and ideas that are a significant departure from the mainstream, which has added another layer of uncertainty. Add to this the sharp decline in oil prices, the first increase in U.S. rates in nearly a decade, a new federal government in Canada, and the Leafs in the playoffs (kidding) and it becomes difficult to read the newspaper or watch the evening news without feeling some level of angst.

However, while we would acknowledge it would be difficult to not feel some need to wear a seatbelt at work in the current environment, the indicators that we believe are most reflective of how the next 1, 3 and 5-years are likely to play out remain well stationed. These indicators include U.S. recession risks, which remain low, the low level of interest rates and the stimulative impact this has on investment and corporate margins, the growing U.S. consumer savings rate, which provides "dry powder" for future growth, and the likelihood of significant infrastructure investment from the Canadian Federal Government, which should provide needed stimulus for the Canadian economy over the next several years.

Famed investor Warren Buffet often tells a parable that goes something like this: your spouse informs you that on your way home from work, you need to stop at the store and buy tomatoes, which the morning paper indicated were selling for \$2.99 per pound. At the end of the day, you dutifully stop at the crowded market where you discover that tomatoes are actually on sale for \$2.49 per pound. What's your reaction to this? Do you stomp out of the store, upset by the fact that tomatoes cost less than you thought? Or do you happily save the \$0.50 per pound, or maybe even buy more tomatoes than you originally planned because of the sale price? While most would probably answer "smile" or "buy more", stock market investors often have the opposite reaction. That is, when a good business that sold for \$30 per share goes "on sale" for \$25 per share because the market has suddenly become fearful about something, rather than "smile and buy more", investors often run for the exits. Now, unlike tomatoes, it is possible that an event occurring in the world could cause permanent damage to some businesses, but we have found that through thick and thin, if investors focus on the right kinds of businesses (those with the attributes described above), these "events" inevitably do not cause permanent damage and when the fear recedes, these good businesses recover their value.



***For clients who took advantage of the reduced rate to switch to a lower RIF minimum payment in 2015:***

- You will have recontributed the excess amount to your RRIF account prior to February 29, 2016.
- You will receive a contribution receipt issued from your RRIF account specifying it as a "Transfer under Section 60 (L)(V)". It should be used to offset the unreduced minimum amount that will be indicated on the T4RIF that you will receive in February.
- In March, a letter will be sent out with details on how these receipts should be filed on the income tax return.



This past December, Peter and Pete were thrilled to present Betty-Lou Souter, Director, Community Care of St. Catharines and Thorold with a personal donation. The funds were directed to their annual Christmas Food Drive campaign.

*“2015 is proving to be a difficult and challenging year for those in our community who are the most vulnerable – 40% of them being children. The need is always great, and the statistics of those using food banks are showing a rise in their usage. For many, having to reach out for assistance is a new and humbling experience.”*

### *Providing Greater Clarity With CRM2:*

#### *What the Client Relationship Model 2 means to you*

You may have heard about it in the news or, if you have met with us in the past couple of months, we would have discussed it in your review. The Client Relationship Model 2, or simply “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.

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 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.

*As always, our primary objective is for you to achieve your financial goals, but we also want you to understand the value that our team and RBC Dominion Securities can provide you with on that journey. We fully support these initiatives as they reinforce both RBC Dominion Securities’ and our team’s ongoing 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*



## The Team

December began with joyful singing at the 25th Anniversary of the Civic Christmas Carol Concert which Peter conducted to standing room only at St. Thomas' Church, Ontario Street. Wonderful singing by Laura Secord and Holy Cross High School choirs. Then Peter flew off to London, UK to the wedding at Lincoln's Inn Chapel of the daughter of an old Abbey chorister from Peter's time at Westminster in the early 60's. Peter played for a term at Lincoln's Inn in 1963 whilst the organist who was Peter's tutor at the Royal Academy of Music was ill. Christmas was a lovely time with lots of family, good cheer and beloved golden retriever, Beau! January was very busy with performances at the FirstOntario PAC, Ice Dogs games at the Meridian Centre, concerts, operas and ballets in Toronto and a couple of Sabres hockey games. He had a short trip to Halifax to see his oldest grandson star in his school play, "Guys and Dolls". Recently, Peter was in Chicago for an organ recital, and in New York for a stunning performance of Mahler's 8th Symphony of a Thousand in the vast Cathedral of St. John the Divine.

This past quarter was all about sports for Pete, Poppy and the boys. Chase made the house league select hockey team and so Christmas vacation was spent in the Virgil arena instead of Florida! This was the first time in a few years that they stayed around for the holidays but they had a blast. Pete and Poppy did some renovations in the basement, including putting in a playroom for the boys. This got completed around Christmas and was well used over the holidays. The boy's house league hockey season is just about to finish with the semi-finals approaching. Daxx is the team goalie for the playoffs and has been playing really well while Chase is a bigtime goal-scorer. The Select team will continue on until early April. It's been great for the development of Chase and Daxx has been fortunate to tag along to some practices too. Aside from hockey the boys also enjoyed indoor soccer training and Welland Minor Basketball. All the sports are finishing for the season and so Pete and Poppy will get a reprieve before the spring and summer season starts up! Pete and Poppy were able to escape to Naples for a few days for an RBC trip in February which was great and the family is looking forward to Florida for the March Break. Both boys love school and continue to do well. They love to read, they love to be read to and they love doing math. Pete and

Poppy also take them to the Performing Arts Centre in order for them to get some culture in their lives. The boys made their debut in late December at the PAC carrying a "pear tree" while Peter Sr. sung "and a Partridge in a Pear Tree"!

Melanie and family have had a great quarter. Christmas was lots of fun, and the boys were surprised with a trip to the Hard Rock Resort in Punta Cana. They went away the second week of January and had a wonderful time. Liam has been keeping busy with indoor soccer training, futsal training and tournaments, and playing for his school basketball team. His soccer team has been gearing up for the upcoming season with some indoor tournaments in Buffalo. Colin is also training indoors for soccer and playing for his school basketball team. They have both been enjoying basketball skill development sessions and being challenged. Everyone has been healthy and happy throughout the winter and they are looking forward to a fabulous spring and time outdoors.

It has been an uneventful few months for Debbie and her family. Kate and Marshall had a wonderful visit with Grandma over Christmas Holidays and cannot wait to see her again at Easter. Thanks to a mild winter the trampoline was used all winter long, even when it was covered in snow! The kids loved watching the snow bounce around when they jumped. Kate has progressed to the next level in her swimming and only has one more level to go after this. Marshall will be starting swimming lessons shortly and will not be happy about swimming without 'mommy'. Debbie is sure there will be more than a few tears to start. Marshall and Kate are both looking forward to the spring weather so they can get their bikes out of storage and spend the evenings outdoors with the dogs (the dogs are looking forward to it as well!).



This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but

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