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Views and opinions
for the clients and friends of

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SUMMER 2014 CATHERINE'S 20TH YEAR ANNIVERSARY

20 years ago this week, in the London Ontario branch of Dominion Securities Catherine began her career in investments. We thought it would be fun to reflect back on the world of 1994.

Jean Chretien was the newly elected Prime Minister of Canada and Bill Clinton was in his second year of his first term as US President. The US Dow Jones Index stood at 3,782 and the Toronto TSE at 4,053. Inflation averaged 2.7% and the cost of a litre of gasoline peaked at 49.8/litre. The Canadian prime interest rate hit 8% (Wish we'd recommended more 20-year bonds)!



Over the summer, David and I were glued to our television watching the famous White Bronco chase through the streets of LA following Nicole Brown Simpson's murder. 1994 was the year the English Channel tunnel opened for the first time approval and the 1st genetically engineered food the Flav Savr Tomato was approved. The very first web browser Netscape Navigator was released. The DVD was to be invented the following year.

The top movies of 1994 were The Lion King, Forrest Gump, and The Shawshank Redemption. Top TV shows were Friends, The X-Files and Star Trek – The Next Generation. Whitney Houston's "I Will Always Love You" was record of the year.

It has not been a boring 20 years. We weathered with our clients, the ups and downs of markets and economies, got married, had a few kids. We're blessed to have been able to grow older and wiser with great clients in a rewarding career.



RBC Wealth Management
Dominion Securities

2014 Mid Year Recap

Wow! I cannot believe we are more than half way through 2014. Stock markets, especially in Canada, have risen more than we expected and even reached an all time high in June. Canadian returns were driven by the energy sector which gained 19%. Energy stocks were boosted by the sustained higher price for crude oil (\$100.82). The Canadian dollar traded at an average of \$0.91 versus \$0.98 over the same period in 2013. This further benefitted Canadian producers selling crude in US\$. Given geopolitical tensions in Iraq, we may continue to see oil prices remain above \$100/barrel.

The June US employment report was without question the best in this cycle. 288,000 new jobs were created last month. This marks the fifth consecutive month of payroll gains above 200,000. Not only is this the best 5-month series of reports this market cycle, but also the best since early 2006. The jobs report will likely reignite the debate over the timing of US interest rate increases. If consensus GDP expectations are met, 2014 will see Gross Domestic Product (GDP) of just 1.7% after growth of 1.9% last year, the slowest in the post-war period. The US Federal Reserve will be extremely sensitive to the implications of increasing interest rates. The first hike is expected in the 3rd quarter of 2015.

The unrelenting rally in stock markets over the past few years is forcing investors to ask what will stop it, if not reverse it. We think the main risks would come from economic shocks, financial instability, a bond selloff and geopolitical shocks. We know through experience, the higher stock prices go, the lower future returns will be. We are forecasting returns of 5%-6% as expected average return for the rest of this market cycle. Considering there is no return on cash and GICs and bonds only match the rate of inflation, we continue to recommend investors are overweight equities.



Canadian Loonie Flying High

The Canadian dollar has been inching its way higher up to \$0.94 after hitting lows of just below \$0.89 in March 2014, due to stronger energy prices. Longer term, RBC-DS is bearish on our currency as we expected its safe-haven status to fade.

Are buy-backs fueling the market?

An article in the Wall Street Journal proposed that it has been “companies purchasing their own shares that represent the single biggest category of stock buyers today”. When companies have a lot of excess cash on their balance sheets, they often institute share buybacks to reduce their overall share count. This gives every remaining shareholder a slightly bigger proportionate stake in the company. “The most direct impact of stock purchases is to increase demand for shares, which supports their prices”. In 2013, buy-backs totaled \$598.1 billion. In the first quarter of 2014, buybacks totaled \$188 billion, the highest quarterly amount since 2007. “

SAFEGUARDING YOUR PERSONAL INVESTMENT INFORMATION



Phishing

Phishing (sounds like “fishing”) is the most common type of online fraud and involves the practice of sending phoney e-mail messages to trick you into revealing your personal information.

RBC will never, under any circumstances, send you an email that includes a link or phone number asking you to:

- Update or verify your account details or other personal information online or by phone
- Log on to DS Online (or another private website)

When these fraudulent e-mails contain links – **DO NOT** click on the links or reply to the message. Remember that these links take you to a phoney website designed to capture your personal information. The websites often look legitimate and may even contain RBC banners and logos to try to fool you.

If you receive an email that asks you to provide confidential information, such as account passwords, PIN, Social Insurance Number or any other personal information – either online or by phone – **DO NOT** respond. Instead, please notify us by forwarding the email to information.security@rbc.com.

If you believe you have provided your account or other personal information in response to a fraudulent email, call us immediately at 1 800 769-2555 or see the “Contact Us” information at rbc.com/security/contact-security.html.

For more information on protecting your personal and financial information online, please review our Guide to Security and Privacy at rbcroyalbank.com/online/guidetosecurity.html.

And be sure to check out our new Phishing Resource Centre at rbc.com/security/phishing.html.

Fraud prevention

RBC has a team of dedicated fraud experts working 24/7 to prevent, detect and investigate fraud. We maintain rigorous security procedures to ensure that you can do business with us in a safe and secure environment.

Online Security

For clients who use DS Online, we have developed the 100% DS Online Security Guarantee. In the highly unlikely event a transaction occurs in any of your RBC accounts due to unauthorized access to DS Online, you will be reimbursed 100% for any losses in those accounts directly resulting from the unauthorized access, subject to certain conditions.

New rules to start July 15, 2014 for investment firm/client relationship

New Investment industry rules are being put into place to give investors the tools to help them make better investment decisions and assess how well their advisor is serving them. These changes are noted below:

- New pre-trade disclosure requirements for the fees and charges associated with a trade (commission and trailer fees).
- Enhanced disclosure of debt security (bond/note) compensation taken by the dealer on trade confirmation.
- Requirement to identify an appropriate investment performance benchmark.

Additional changes coming in 2016 include an annual report of costs and compensation and annual report of performance (RBC DS already has this in place). These changes will add transparency and aid investors in better understanding both fees charged and investment performance relative to markets.



Exciting News

Johnston Wealth Management is pleased to announce the launch of our new website.

For relevant information and insight concerning our team, the markets, wealth management solutions, industry publications, our newsletter and so much more, please visit www.rbcjohnstongroup.ca



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