

# Wealth Management REVIEW



Wealth Management  
Dominion Securities

[www.rbcwealthmanagement.com](http://www.rbcwealthmanagement.com) | January 2017



## In brief

### The more things change ...

The American election results have improved the prospects for U.S. economic growth out through 2018. See page 2-3 for our full article.

### RRSP deadline

The deadline for your 2016 Registered Retirement Savings Plan (RRSP) contribution is March 1, 2017. Contact your advisor for more information.

### Tax-free investing

You can now make your 2017 Tax-Free Savings Account (TFSA) contribution. See page 4 to learn more.

## An important change for the Canadian investment industry

By David Agnew

For years now, the Canadian investment industry has been working on new regulatory reforms called Client Relationship Model II (CRM2). CRM2 is designed to help investors better assess the value of their relationship with their advisor and their investment firm, and how the advice they receive is helping them progress towards their investment goals.

As part of CRM2, in the coming days and weeks, you will be provided with an Annual Report on Charges and Compensation and an Annual Report on Investment Performance.

It will be an important change for the Canadian investment industry, as all investors, regardless of which firm they are with, will see the dollar amounts of the costs of their investment advice, as well as a new way of measuring return – the “money-weighted rate of return” (which is also known as the “internal rate of return”).

As Canada’s largest wealth management firm, we welcome these changes. It is important that you have a good understanding of the value you receive for the costs of your investment advice and services.

For the past several years, we have implemented a number of measures to ensure you receive clear

information about the new regulatory requirements. We have also taken significant steps to ensure we will be able to provide you with transparent CRM2 reports.

At RBC Wealth Management, we are committed to offering an exceptional client experience with investment management at the core, complemented by a full spectrum of wealth management solutions. This includes assistance with intergenerational wealth transfer, business succession and estate planning.

We encourage you to contact your advisor to learn more about CRM2, and how we can help you achieve your financial goals.

David Agnew is CEO, RBC Wealth Management–Canada.



# The more things change...

By Jim Allworth

The American election results have improved the prospects for U.S. economic growth out through 2018. This has already put upward pressure on long-term interest rates and picked up the projected pace of U.S. Federal Reserve (“Fed”) tightening. It also improves the growth outlook for corporate earnings in each of the next two years. The collateral effects of the U.S. policy shift on the rest of the world are at best uncertain. Investors need to recalibrate.

Our view of the investment landscape has rested on three interrelated planks:

1. Until a recession – in particular a U.S. recession – lies immediately ahead, equities should be given the benefit of the doubt.
2. With few exceptions over the past century, recessions have been preceded, usually by several quarters, by the arrival of “tight money” – i.e., prohibitively high interest rates coupled with banks’ unwillingness to offer loans.
3. A U.S. economy that is growing exerts a powerful “tractor” effect on

the rest of the world – certainly on major trading partners like China, Mexico and Canada – as U.S. imports from these countries are very large and typically grow faster than overall GDP.

A corollary to plank #1 above notes that all U.S. recessions have been associated with “bear markets” for equities. So, when a recession is in the offing – but not before – an investor should adopt a more conservative stance, e.g., by reducing overall equity exposure or by shifting emphasis away from sectors driven by the business cycle and toward those that are not.

## No U.S recession on the horizon

Let us say right here that we don’t see a recession arriving in 2017. While interest rates have *started* to move higher and some U.S. banks have *started* to raise lending standards on certain types of loans, we expect it will take a considerable time before credit conditions tighten enough to make a recession inevitable. The Fed has reiterated its “patient” approach to implementing further rate hikes and the very recent sharp widening of the spread between long-term

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and short-term interest rates would normally give banks a renewed appetite for lending.

Since the U.S. election there has been a big jump in confidence expressed in surveys of CEOs, owners of small- and medium-sized businesses, and consumers, indicating 2017 will begin with some powerful psychological forward momentum. The very robust condition of the all-important U.S. consumer (70% of GDP) – the unemployment rate and unemployment insurance claims at or near 45-year lows, wage rates rising and very healthy savings with \$8 trillion sitting in the bank – suggest this elevated level of confidence is not misplaced.

### 2018 looks solid

It should be said that the new administration's proposed fiscal push – lower taxes for consumers and business, big government spending on infrastructure – won't have much of a direct effect on 2017 growth. Our U.S. colleagues assure us a new budget won't be sent to Congress before April/May. Legislation is unlikely to be agreed and signed before summer with funds only moving toward taxpayers and shovels hitting dirt later in the year.

But these initiatives will provide a bigger positive lift to growth in 2018 – estimated to be about three-quarters of one percent – even allowing for the likelihood the final package is only half or less as large as the numbers floated since election day.

However, that added boost, to an economy already contending with a

tight labour market and experiencing rising wage inflation, could push the Fed to pick up the pace of rate hikes in 2018, putting the economic trajectory in 2019 and 2020 at risk.

For now, though, it's a case of "so far, so good." The U.S. economy should keep growing at least through 2018, setting the stage for a resumption of growth in U.S. corporate earnings. After three successive years stuck at \$118 per share, our U.S. equity strategy team expects S&P 500 earnings to advance by 8% to \$128 this year and to \$140 in 2018. That should be enough to generate all-in returns including dividends of 10% or better each year.

### Trade uncertainty

It's when we move beyond the purely U.S. view to consider the rest of the world that things become more problematic. The new administration has said it intends to declare "jump ball" with respect to trade relationships and agreements, including NAFTA. In the election campaign, the focus was on China and Mexico, both of which run big trade surpluses with the U.S. and have been accused by the incoming administration of sucking manufacturing jobs out of the U.S. by, among other things, deliberately weakening their currencies.

The merits of these arguments, and others concerning immigration, can be debated but probably not at this time with the new Washington. Canada for its part has a very large but mostly balanced trade relationship with the U.S. Nor is there any discernible one-way flow of jobs from the U.S. to Canada. But in a world where populist views predominate about what's fair



For more detailed thoughts about our outlook for the global markets, please ask us for the latest edition of Global Insight.

and not fair and what needs to be done about it, it's probably not wise to automatically assume this country will get a free pass under the "old pals act."

That said, we like the outlook for Canadian equities in part because the important energy sector looks to be stabilising, perhaps even improving. That's good news for the heavy-weight financial sector, as are the higher longer-term interest rates that have arrived in recent months. We continue to recommend Canadian investors carry meaningful exposure to the U.S. market where sectors not well represented in the Canadian index – e.g., technology, healthcare, many consumer groups and industrials – offer valuable diversification benefits and expanded opportunity.

Jim Allworth is co-chair of the RBC Global Portfolio Advisory Committee.

## 2017 Tax-Free Savings Account (TFSA) contributions

As of January 1, 2017, you can contribute an additional \$5,500 to your TFSA to benefit from tax-free growth.

With the contribution room from 2009 through 2016, you will be able to contribute up to \$52,000 to grow tax-free.

With a TFSA, you can contribute up to your contribution limit each year (\$5,000 for years 2009-2012, \$5,500 for 2013-2014, \$10,000 for 2015 and \$5,500 for 2016-2017), earn tax-free investment income including interest, dividends and capital gains, and even make withdrawals – at any time,

for any reason – without paying tax. Although this may not sound like much at first, with tax-free compound growth, it can add up over time.

Any Canadian resident who has reached the age of majority in their province can open a TFSA. The age of majority is 19 in Newfoundland and Labrador, New Brunswick, Nova Scotia, British Columbia, Northwest Territories, Yukon and Nunavut. In all other provinces, it is 18. Bear in mind

that you need to have a valid social insurance number to open a TFSA.

Contribution room accumulates every year starting at age 18, and can be carried forward indefinitely. You can continue contributing to your TFSA even when you're retired – it's a lifelong plan.

**Please contact your Investment Advisor for more information.**

### Interest rates applied to account balances as of December 22, 2016\*

	Canadian dollar accounts	U.S. dollar accounts
All credit balances	0.05%	0.05%
Debit balances under \$10,000	4.70%	6.00%
Debit balances \$10,000 – \$24,999	4.45%	5.75%
Debit balances \$25,000 – \$49,999	4.20%	5.50%
Debit balances \$50,000 – \$99,999	3.95%	5.25%
Debit balances \$100,000 and over	3.70%	5.00%
All debit balances for registered accounts	4.70%	6.00%
All credit balances for registered accounts	0.05%	0.05%

The interest rates that will be in effect for debit balances in cash and margin accounts fluctuate with the Royal Bank prime rate as follows:

Debit balances	Canadian dollar rates <sup>†</sup>	U.S. dollar rates <sup>†</sup>
Under \$10,000	CAD Prime + 2.00%	USD Prime + 2.25%
\$10,000 – \$24,999	CAD Prime + 1.75%	USD Prime + 2.00%
\$25,000 – \$49,999	CAD Prime + 1.50%	USD Prime + 1.75%
\$50,000 – \$99,999	CAD Prime + 1.25%	USD Prime + 1.50%
\$100,000 and over	CAD Prime + 1.00%	USD Prime + 1.25%

<sup>†</sup> Based on Royal Bank prime rates as of December 22, 2016. CAD Prime = 2.70% and USD Prime = 3.75%. Rates are subject to change.

\* RBC retains the right to change interest rates on a discretionary basis. A committee comprised of individuals representing various authorities within RBC Dominion Securities administers these interest rates. These rates are adjusted from time to time based on various factors, including, but not limited to, competitive analysis, Bank of Canada and other bellwether rates and/or cash rates. Interest amounts less than \$5 are neither charged nor paid on regular accounts, and interest amounts less than \$1 are neither charged nor paid on special product accounts. Rate changes of less than 1% will be processed on the 22nd of the month. The average daily cash balance for the month determines the tier that will be used to establish the rate. For interest rates on balances other than CAD or USD, speak to your advisor, or go to [www.rbc.com/cash-margin-rates.html](http://www.rbc.com/cash-margin-rates.html).



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