RBC Dominion Securities Inc.

Portfolio Advisor

Wealth Management
Dominion Securities

October 2017

Market commentary

The global equity market continued to push higher as favorable economic fundamentals solidified and major central banks affirmed they will move toward normalizing monetary policies. For the first time since the Great Recession, most developed economies are in the midst of a synchronized, durable upswing, with the exception of the U.K. Indicators point toward the global and U.S. economic expansions stretching beyond our 12-month horizon.

"Optimistic, invested, and vigilant" sums up our view.

In the meantime, corporate revenues, earnings, and estimates are all rising, taking the sting out of price-to-earnings multiples that are no longer compellingly cheap. "Optimistic, invested, and vigilant" sums up our view. We would maintain a moderately overweight commitment to global equities. Among developed markets, we favor an overweight position in Europe and market weight exposure to the U.S., Canada and Japan.

Fixed income

Major central banks have clearly communicated that the days of extraordinary monetary stimulus are in the rearview mirror. While we think this is an important shift following years of ultra-loose policies, guidance from each bank suggests the move toward interest rate normalization will unfold gradually. Central banks will be dealing with similar challenges – below-average economic growth, low inflation, low productivity and shifting demographics – which, in our view, ensures policy normalization will unfold over many years. Their patient moves will be done to normalize, not tighten, monetary policy.

We continue to believe the current environment provides investors a window to de-risk and diversify fixed income portfolios. While there are opportunities in the market, including in the credit sector, we advise patience and selectivity.

To learn more, please ask us for the latest issue of Global Insight.

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Raising rates, raising questions

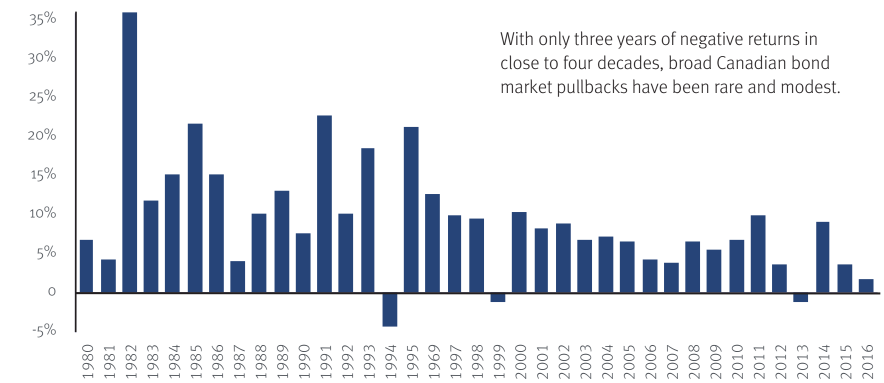
Four ways that rising interest rates affect investors

With the Bank of Canada raising its overnight rate twice this past summer, and for the first time since 2010, many investors have questions about how higher rates may affect their investments.

While periods of rising interest rates can be challenging for the broader bond market, causing the market price of bonds to decline, there are some positives. Investors buying new bonds benefit from higher interest rate payments. Rising rates are also a sign of an improving economy. Stocks, and even certain bonds, often benefit from rising rates, helping diversified investors weather the downside risks. Additionally, rising Bank of Canada rates do not affect all bond markets, investors or strategies in the same way.

Canadian bond market annual returns

FTSE/TMX Canadian Universe Bond Index 1980-2016



1. Boost income

For those relying on a steady stream of cash flow from their bond portfolio, rising rates can help enhance income. As bonds mature in your portfolio, the proceeds can be re-invested in bonds with higher interest rates, providing a long overdue boost to your income.

Investors following a "bond ladder" strategy may also benefit from rising rates. With a "ladder," your bond investment is equally divided among evenly staggered maturity dates. For example, you might invest $20,000 each in one-, two-, three-, four- and five-year bonds. As each bond matures, you reinvest the proceeds in a new five-year bond. Not only does this help reduce the temptation to time the bond market, but as longer-term bonds typically pay more than shorter-term bonds, rising rates mean you'll gradually enhance your income.

2. Limit bond market returns

The broader Canadian bond market is generally represented by high-quality Canadian and provincial government bonds, and investment-grade corporate bonds. When rates are rising, broad market mutual funds or ETFs may see reduced returns. Historically, however, significant broad bond market pullbacks in Canada have been few and far between, and most pullbacks have been relatively shallow and short-lived.

3. Enhance diversification opportunities

When the Bank of Canada raises its overnight rate, not all bond asset classes or markets will act the same way. While Canadian and provincial government bonds prices may tend to pull back, certain corporate and high yield bonds can outperform, and may rise in price, as rising Bank of Canada rates are taken by investors as a sign of a healthy economy. Rising rates can also improve the cash flow profile of floating rate debt and rate reset preferred shares. In addition, while rates may be rising in Canada, they could be falling in other global bond markets, offering another opportunity to diversify.

4. Provide confidence for equity markets

Investors with equity investments can benefit when interest rates rise because it's often a sign of strength in the overall economy. Generally, central banks reduce interest rates when they want to stimulate an economic growth, and raise them when they feel there's less need. When the economy is strong, that means corporate earnings are strong, which can positively affect share prices.

As always, diversification remains the key to portfolio stability through virtually any market environment. For more information, please contact us.

Driving change with philanthropy

Many of us make charitable donations on a regular basis, often through annual gifts, or in response to a request to support a cause we believe in. Philanthropy, however, is more strategic. It's about establishing a long-term plan for giving, setting out the goals of an endeavor and working to make that vision a reality.

While the aims of philanthropy today are much the same as they always have been, many philanthropists today are discussing what's changing and how to make a lasting impact.

Supporting fewer causes for greater impact

Many philanthropists are accustomed to supporting a wide array of causes. With this approach, however, the impact of giving can become diluted. By finding a focus, getting involved and taking the time to do it right, many philanthropists are finding they are able to make a bigger difference.

Collaboration

To advance their goals, philanthropists are becoming more collaborative with other like-minded benefactors, the private sector and government. A passion for collaboration, a desire to take on the role of coordinating different organizations and a willingness to share or forego the credit for success are all evolving trends in philanthropy.

Technology's impact

Technology is enabling solutions unimaginable to previous generations of philanthropists, such as fighting climate change or eradicating poverty. It's helping organizations be more responsive and quicker off the mark to deal with problems. It's also helping to quickly and easily measure results, providing philanthropists with solid evidence of their effort's impact.

Building a plan

An important first step for starting a successful philanthropic journey is a plan. You'll need to consider what endeavor to pursue or support. Will you get involved or make a long-term commitment? How much time can you spare? Answering these questions can help get started on building a framework for giving. Your plan will also need to be integrated with your finances to determine how much you should give, and the best method to effectively donate funds.

Contact us for more information on setting up and managing your philanthropic plan.

Giving

Whether your goal is to provide an organization with steady, predictable cash flow, or if you're looking to satisfy short- or long-term objectives, it's easier than ever to give.

Direct gifts

You can gift cash, securities, works of art, private company shares or even life insurance. Gifts provide immediate financial support to a charity and donors may benefit from an appreciable tax saving.

Private foundations

A private charitable foundation is a non-profit organization often funded by a group or family that offers a personalized approach to giving. Foundations can be very flexible, as directors or trustees can award grants on a case-by-case basis to support specific charitable work or other registered charities. However, there can be substantial operating, administration and set-up costs.

Donor-advised funds

A donor-advised fund is a popular choice for those who do not wish to commit the time and funds required for a private foundation. As a donor, you make an irrevocable donation to a fund administered by a registered public foundation. You receive a tax receipt equal to the value of your donation, and can recommend how contributions are managed and select which charities receive grants.

Five surprising ways insurance can help protect your wealth

While most people know about the basic protections offered by life, home and auto insurance, many are unaware that insurance can be an extremely flexible and versatile wealth management planning tool.

1. Estate tax funding

A life insurance policy can be an effective means of satisfying tax obligations at death. It can provide immediate and tax-free liquidity to satisfy estate obligations, including taxes, probate and estate settlement costs. For example, secondary real estate such as a cottage or rental property, or an RRSP or RRIF, can come with a hefty tax bill for beneficiaries other than your spouse upon your death. A life insurance policy can be used to cover the expected taxes, and can also be set up on a single life or joint last-to-die basis.

2. Asset protection

Under provincial insurance legislation, personally-owned insurance policies generally receive a special level of protection from creditor claims when there is a named beneficiary. In the case of a preferred beneficiary or irrevocable designation, an insurance policy is also generally beyond the reach of the insured's creditors during the insured's lifetime.

3. Estate equalization

Insurance can be useful in instances where equal distribution of assets to your heirs is important. For example, your wealth may be concentrated in a large, non-liquid asset such as a business or family cottage, which you wish to pass to a specific heir, yet still treat your other heirs equitably. In circumstances like these, insurance can help solve the problem. You can gift or pass the asset to your heir as desired, while your other beneficiaries can receive tax-free proceeds from an insurance policy to equalize the inheritance.

4. Buy-sell funding for business owners

Many shareholder agreements contain mandatory buy-sell obligations in the event of the death, illness or disability of a shareholder. Prudent planning requires such agreements be funded with life or living benefits insurance, so that funds will be available to satisfy the buy-sell obligation. Structuring the buy-sell with insurance solutions and to maximize the benefit of tax-relieving rules is critical to maximizing shareholder value and minimizing disruption to surviving stakeholders.

5. Living benefits

Living benefits insurance is a type of coverage that pays a benefit to you while you're alive. Three distinct solutions – disability, critical illness and long-term care insurance –help ensure your financial stability by covering a wide range of expenses or providing income replacement due to injury, illness or aging. Living benefits have become increasingly popular and necessary as people live longer and for longer periods of time with health issues requiring additional care and financial support. They are also an important consideration for those without adequate employee benefits.

Contact us for more information on these and other insurance solutions.

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