Wealth Management
REVIEW

Wealth Management
Dominion Securities

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In brief

Tax-free investing

You can now make your 2018 Tax-Free Savings Account (TFSA) contribution. 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 and 2018), earn tax-free investment income including interest, dividends and capital gains, and even make withdrawals – at any time, for any reason – without paying tax. Contribution room accumulates every year starting at age 18, and can be carried forward indefinitely. To make your 2018 TFSA contribution, please contact your advisor.

RRSP deadline

The deadline for your 2017 Registered Retirement Savings Plan (RRSP) contribution is March 1, 2018. Contact your advisor for more information.

Still in gear

By Jim Allworth

Growth is bustin' out all over! (Apologies to Oscar Hammerstein.) Canada caught forecasters off-guard in 2017 by posting two back-to-back quarters of 3%-to-4% GDP growth mid-year. Ditto for the U.S., which saw growth top the elusive 3% mark in each of the second and third quarters, despite being walloped by two mammoth hurricanes. The fourth quarter looks to have been at least as strong.

Europe has also come in from the cold. Just two-and-a-half years ago, growth in the Eurozone was limping along at less than 0.5% annually. The economy, at the time, was widely expected to slip back into yet another recession. Instead, as the banking system gradually emerged from crisis and returned to the business of lending money, the region's output managed to develop some upward momentum, finishing 2016 up by a much better than expected 1.7%, then improving on that to an estimated 2.3% in the year just ended.

We expect the Eurozone economy to do at least as well in the coming year with red-hot economic activity indexes pointing to a strong start. The improvement has been broadly based: Spain and Austria have led the way, with France accelerating in recent quarters. Importantly, Germany is no longer carrying the load by itself. In Japan, the world's third-largest national economy, the champagne has been flowing in celebration of seven consecutive quarters of positive GDP – the first such streak in almost 17 years.

As the pace has picked up in all of the developed economies, so has the volume of global trade and industrial production. In China, growth has become more balanced – debt is at last growing no faster than the economy. And important emerging economies like Brazil's and Russia's are rebounding out of deep downturns while Indian growth has reaccelerated back above the 6% mark.

Not too hot, not too cold

For most important economies, including the U.S. and China, today's improved GDP growth rates are still below those posted in the

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heady years leading up to the financial crisis, helping to keep inflation at bay. Central bankers in North America and Europe are increasingly using the cover provided by what appears to be self-sustaining growth and benign inflation to move monetary policy, very gradually, away from the extraordinary degree of accommodation of the past eight years. "Normalize" and "patience" are the watchwords of this policy shift as central bankers take pains to state that outright monetary tightening lies some considerable way off in the future, if it arrives at all.

In synch

So, from the standpoint of a global equity investor, here's how the table is set:

- Global economies appear to be expanding in a synchronized fashion for the first time in at least six years and the pace of that expansion has recently picked up.
- Most central banks remain extremely accommodative even as they move toward very gradually "normalizing" policy. Credit conditions restrictive enough to produce a global downturn or, in particular, a U.S. recession, are nowhere in sight.
- Corporate earnings, after several years of decline/stagnation, turned higher a year-and-a-half ago and are now near or above all-time highs. Managements' earnings guidance, even those made long before U.S. tax cuts looked plausible, have been very upbeat, correctly signaling the strong growth delivered in 2017 with another good gain expected this year.

Looking at the U.S. equity market specifically, the S&P 500 began 2017 at 19.1x trailing 12-month earnings and finished the year at 20.6x an earnings figure that had grown over the year, as expected, by 11%. As 2018 gets under way, earnings were forecast to grow by 7% before tax cuts, and by 12% when those cuts are factored in. That puts the index at somewhere between 18x and 19x those forecasts.

By way of comparison, Canada's TSX is trading at 16.5x this coming year's expected earnings while European stocks are at 15x.

P/E multiples don't usually peak until the earnings and economic cycles do. We don't find today's P/Es any impediment to equity markets delivering further worthwhile gains in the coming year, particularly if earnings grow roughly as forecast.

The path to those gains is unlikely to be a smooth one. It's not difficult to imagine developments that could produce bouts of volatility. NAFTA is front of mind in Canada. Politics and Brexit preoccupy Europeans.

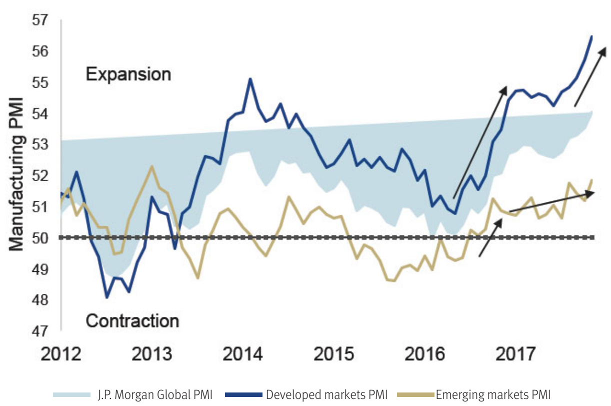
Mid-term elections are on the way in the U.S. along with clearer, probably more worrying, elaboration of the administration's trade policy imperatives. And of course, geo-politics are never far away.

Corrections notwithstanding, and with all of our indicators still suggesting no recession is in sight, we are inclined to go on giving equities the benefit of the doubt through 2018 and probably beyond.

For a broader, more detailed discussion of our expectations for financial markets, ask for our recently issued *Global Insight 2018 Outlook* and for our most recent edition of *Global Insight Monthly.*

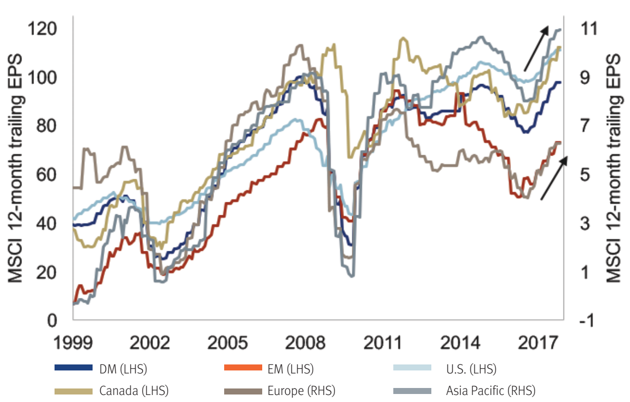
Jim Allworth is co-chair of the RBC Global Portfolio Advisory Committee.

Global manufacturing expansion continues



Note: PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

Global corporate profits rising



Note: Earnings per share (EPS) in U.S. dollars for developed markets (DM), emerging markets (EM), U.S. and Asia Pacific; euros for Europe; Canadian dollars for Canada. Source: MSCI, Bloomberg, RBC GAM

Is insurance the missing piece in your wealth-transfer puzzle?

Like many investors, you may be concerned about building and protecting wealth in your lifetime, and for future generations.

With life insurance, you can maximize your wealth as part of a broader financial and estate plan, to ensure your beneficiaries are looked after when you're gone.

"Some people see insurance as an expense. They just look at the premium," says Daniel Duchesne, Vice-President & Estate Planning Specialist at RBC Wealth Management Financial Services. "But as soon as we put everything into perspective – that we're using life insurance as a tax-effective way to transfer money to the next generation or a charity, and because of the return it can provide – they realize why we are doing it."

Even families who may not need the financial protection of life insurance might use it to enhance the value of their estate.

"Most of the wealthy clients that I deal with, because they're wealthy, they assume they don't need life insurance," says Duchesne. "They may not *need* it, but many aren't aware of the leverage life insurance can provide."

How to use life insurance in estate planning

The primary benefit of life insurance is it can provide income for beneficiaries when a policyholder passes away, whether it's family or a charity, or both.

"If a client wants to transfer a portion of their estate not used in retirement to the next generation – whether that is kids, grandkids or a charitable foundation – insurance is one of the best ways to achieve that," says Duchesne.

The payments also bypass the estate, which means they can go directly to your beneficiaries without delay.

Life insurance can also help to preserve the value of your estate by leaving money behind to pay for taxes, fees or other financial obligations. This can help to ensure any non-liquid assets, such as a cottage or business, can be left to beneficiaries and don't have to be sold. Life insurance policies are available for personal estates or can be part of a corporation.

The two main types of permanent life insurance regularly used in estate planning are universal and whole life. Universal is more active or self-directed, highly flexible and has more product features. It's usually suited to individuals who are comfortable managing their own investments. Whole life is more passive and managed by the insurance company. It's best suited to investors who are more risk averse, don't necessarily need control of their investments and prefer more stable, balanced returns.

Tax-exempt growth

Both types of insurance allow cash accumulation on a tax-exempt basis, which happens when a policyholder pays more than the cost for the coverage and the excess money is invested within the structure of the plan. The money is not taxed annually as it grows, and there's no tax payable to the beneficiaries when the policyholder dies.

Tax-advantaged life insurance covers your estate needs and can be a significant asset within your overall portfolio, allowing you to maximize the value of the assets you plan to pass on to the next generation. The tax efficiency is also why life insurance investments have the potential to generate a much higher rate of return than what might otherwise be earned through regular investing, says Duchesne. With universal life insurance, premiums can be increased to raise the

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The missing piece ...
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amount of tax-deferred savings, with some limitations.

One caveat with life insurance is that it's not liquid, so you need to ensure you're only earmarking money you don't plan on accessing in your lifetime. Your health status also matters: If you have health issues, the premiums may be too high and the returns too low for the policy to have an advantage over other investment options.

Overall, Duchesne says the type and amount of insurance you need will depend on your investment risk tolerance, how much money you need to remain liquid in your portfolio and what portion of your estate you want to leave to beneficiaries.

As with all insurance products used for estate planning, Duchesne says you need to do a thorough cost-benefit analysis to determine what strategy works in your personal circumstances.

Part of a good financial plan

While there are a number of good reasons to consider life insurance, many Canadian families remain underinsured, says John Hamilton, Vice-President & National Manager, Insurance Services at RBC Wealth Management Financial Services Inc.

He believes insurance is often misunderstood.

"In many peoples' minds insurance is a negative word," Hamilton says, because it's connected with unfortunate events such as an accident, natural disaster, fire or death.

"In reality, insurance is just part of a good financial and estate plan."

Interest rates applied to account balances as of December 22, 2017*

	Canadian dollar accounts	U.S. dollar accounts
All credit balances	0.05%	0.05%
Debit balances under $10,000	5.20%	6.75%
Debit balances $10,000 – $24,999	4.95%	6.50%
Debit balances $25,000 – $49,999	4.70%	6.25%
Debit balances $50,000 – $99,999	4.45%	6.00%
Debit balances $100,000 and over	4.20%	5.75%
All debit balances for registered accounts	5.20%	6.75%
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†	U.S. dollar rates†
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%

† Based on Royal Bank prime rates as of December 22, 2017. CAD Prime = 3.20% and USD Prime = 4.50%. 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.rbcds.com/cash-margin-rates.html.

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