Wealth Management
REVIEW

Wealth Management
Dominion Securities

www.rbcwealthmanagement.com | July 2018

In brief

The new Canadian legacy

For many Canadians, "legacy" no longer means having a hospital wing or performing arts building named after them. Indeed, today, the meaning of legacy is personal for Canadians, based more on relationships with family and friends – and with driving social change – than on money alone. These are among the findings of a survey by The Economist Intelligence Unit, commissioned by RBC Wealth Management, which explored how the meanings of legacy and wealth are being redefined across regions, genders and generations. **Please visit rbcwealthmanagement.com/legacy for more survey insights.**

More to come

By Jim Allworth

Equity markets have been giving mixed readings. On the one hand, the S&P 500, the Dow Jones, Europe's benchmark index and Japan's TOPIX are all still below their January highs. By contrast, the NASDAQ, Canada's TSX, and the FTSE in the U.K. are all at or have set new highs in recent weeks.

Perhaps even more important, U.S. small-cap and mid-cap indexes have also moved above their January peaks, as have indexes designed to measure market breadth – i.e., the proportion of stocks moving up versus moving down. Small-cap and breadth indexes typically start to move lower on a trend basis months or quarters before the major large cap indexes set their final highs for the cycle. Instead, today, they have been powering higher, suggesting there is more upside to come for the S&P 500 and other large-cap indexes.

And we think there is: the U.S. economy looks to have reaccelerated in the second quarter while most other economies are holding their own; earnings estimates on the street continue to climb higher; and P/E multiples at 16.5x forward earnings for the S&P and 15.1x for the TSX are not demanding. Importantly, those factors we monitor that have reliably flagged approaching recessions ahead of time are all suggesting that no significant global or U.S. economic downturn is imminent. These include the cost and accessibility of credit, employment conditions, as well as new orders and production levels.

Keep a close watch

All that said, changes at the margin for certain factors suggest our recommended moderately-above-benchmark exposure to stocks in portfolios should be accompanied by increased vigilance in the coming quarters.

Perhaps the most important change to note is the shift in tone from the U.S. Federal Reserve's Open Market Committee. Communications accompanying its June rate increase indicated the collective view of the committee members now looks for two further

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The U.S. Fed has opened the door to normalizing rates faster than previously expected.

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hikes this year (up from one previously) and an additional hike next year over and above the three forecast previously.

The committee also dropped some longstanding "lower for longer" language in its communiqué. This opens the door for the Fed to normalize policy rates somewhat faster than previously indicated – not a dramatic change perhaps, but one that arguably brings closer the tighter credit conditions that historically have produced economic and earnings downturns as well as more challenging equity markets.

At the same time, global PMIs (economic activity indexes) have rolled over and are now below recent peak levels. While still comfortably within the zone indicating manufacturing volumes continue to expand, they are no longer moving higher. This might be heralding a leveling out of earnings estimates in coming months. In a period of rising interest rates, this in turn could mean the rich price/earnings ratios seen at the January peak might have set a high-water mark for valuations that's difficult to exceed.

For our part, we expect earnings growth alone will be able to power the indexes high enough to deliver worthwhile all-in returns from stocks. However, we expect their trajectory to be more volatile and shallower than the "straight up" double-digit-return runs of 2016 and 2017.

The deal with trade

There is, of course, a growing "wall of worry" emanating from several sources: trade disputes; fractious politics in the U.S., U.K. and Europe; the ever-present risk of geopolitical blow-ups; China concerns. The fate of NAFTA negotiations are front of mind for Canadians (and many Americans), followed closely by deterioration of trade relations between the U.S. and China.

Hopes for a quick NAFTA resolution have faded recently as Mexican elections and U.S. mid-terms begin to factor into timing assumptions. Even a deal reached now may have to be successfully shepherded through a contentious election season. Agreements by negotiators and then approval by politicians could involve a nerve-wracking wait well into next year. And the odds of which outcome – benign or damaging – is likely to prevail have swung in both directions more than once.

We expect that, to the extent there are negative outcomes from these negotiations, they will be felt most fully by the economy and by markets in the next economic downturn when it arrives. So far neither the economic and credit indicators we watch nor the stock market itself are suggesting such a downturn is looming.

For thoughts on how to consider the potential impact of these developing risks within investment portfolios ask for a copy of our latest edition of *Global Insight Monthly.*

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

Here's what women entrepreneurs need to know about succession planning

By Leanne Kaufman

In February's federal budget, Ottawa announced increased support for female entrepreneurs as part of a broader effort to tighten up the gender gap in the economy. And no wonder: Currently, only 16% of businesses in Canada are majority-owned by women, and they often face a unique set of challenges.

When it comes to leaving their jobs for self-employment, for example, women cite personal or family reasons as a rationale twice as often as men do. A 2016 Statistics Canada study found that "becoming a new mother increases the probability of making a transition from wage employment to self-employment," particularly if a woman feels that becoming self-employed will benefit her family.

Once their businesses succeed, these same family obligations can sometimes force female entrepreneurs to step away, either temporarily or permanently, making it critically important to have a succession plan in place.

So, where should you start? These are three commonly considered strategies for business succession planning:

1. A successor (or successors) is identified and the business owner makes plans with that successor in mind. Successors may include family members or an existing employee of the business.
2. Buyout by existing employees or management. A group of employees or an existing management team collectively purchase the interest of the business, when one or two individual successors have not been identified.
3. Sale to a third party.

To determine the right strategy for you, consider these factors: Has a successor been identified for the long or short term? If you want to pass your business to your children, for example, are they ready to take over if something happens to you tomorrow, or do you need an interim plan until they have the maturity and experience to step into your shoes? How quickly do you need your capital out of the company?

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Women entrepreneurs ...
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Your retirement planning and need for funds over the short and long term may affect the pool of potential candidates to purchase your interest in the business.

Is there an existing buy-sell or shareholders agreement with a co-owner, and how does this align with your plan? Does your Will reflect your wishes when it comes to the business succession plan? It is important to have alignment here as well: Without further planning in place, your executor may end up as sole shareholder (on behalf of the estate) and may have to step into the role of director/officer of the company.

Women should also consider their own role as a successor. Statistics show that women continue to outlive men (on average almost five years longer) and the trend is projected to continue. This means that women whose partners are business owners may themselves become successors, even if they are not currently involved in the business. This responsibility would come paired with the need to develop yet another plan for passing on this business when the time comes.

Regardless of which succession path you take, effective communication is critical.

Communication helps gauge the interest of potential successors, and helps them understand the factors you are considering in choosing your successor.

If family members, particularly children, are candidates, communication allows them to be involved from an early age, which can make the transition easier when the time comes.

For more information, please contact us today.

By Leanne Kaufman, Head of RBC Estate & Trust Services and president of Royal Trust Corp. of Canada and Royal Trust Co.

This article originally appeared in the Financial Post *on May 8, 2018.*

Interest rates applied to account balances as of June 22, 2018*

	Canadian dollar accounts	U.S. dollar accounts
All credit balances	0.05%	0.05%
Debit balances under $10,000	5.45%	7.25%
Debit balances $10,000 – $24,999	5.20%	7.00%
Debit balances $25,000 – $49,999	4.95%	6.75%
Debit balances $50,000 – $99,999	4.70%	6.50%
Debit balances $100,000 and over	4.45%	6.25%
All debit balances for registered accounts	5.45%	7.25%
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 June 22, 2018. CAD Prime = 3.45% and USD Prime = 5.00%. 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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