Wealth Management
REVIEW

Wealth Management
Dominion Securities

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In brief

Morning glory

Ontario's Amanda Boulos has won the 20th Annual RBC Canadian Painting Competition for her work, "In the Morning." Honourable mentions were awarded to artists Emmanuel Osahor of Edmonton, Alberta for "Hiding place" and geetha thurairajah of Kitchener-Waterloo, Ontario for "A complicated relationship with our past makes for better stories of a future."

Since 1999, the RBC Canadian Painting Competition, with the support of the Canadian Art Foundation, has helped bridge the gap from emerging to established artists. The winner receives a $25,000 purchase prize, along with a residency at Banff Centre for the Arts, while the honourable mentions each receive $15,000 purchase prizes.

For more information, visit rbc.com/paintingcompetition.

Still alive

By Jim Allworth

Second-quarter GDP results for the major economies were mixed: strong for both Canada and the U.S., steady in China, recovering in Japan, and softer but still positive in the U.K. and Europe. Underneath the GDP data, global PMIs (economic activity indexes) rolled over in the spring and have declined five out of six months since. While they remain comfortably at levels that indicate most economies are still expanding, the weakening readings suggest that momentum may have peaked and that global GDP growth rates could soften somewhat in coming quarters.

Placed against this, we have second-quarter corporate earnings that mostly exceeded analysts' estimates, as did top-line revenue growth. And management guidance among the U.S. reporting companies was upbeat, suggesting there is more to come this year and next. For the most part, this was also true for earnings across the developed economies, although management comments were often tempered by concerns about trade policy.

Taking your bumps

This projected combination of moderating economic growth but higher corporate earnings looks reasonable to us. It also appears the U.S. economy is better positioned than most to buck the "moderating GDP growth" trend, at least for a while. In the current year, fiscal stimulus (tax cuts and new spending) will have added more than 1% to GDP. Next year, the non-partisan Congressional Budget Office estimates the added stimulus will exceed 2% of GDP, before subsiding to nothing or even a drag in 2020.

For now, that should be more than enough to offset weaker exports stemming from slower growth abroad, trade frictions and the stronger U.S. dollar. However, it will be tougher to overcome the growing drag from higher interest

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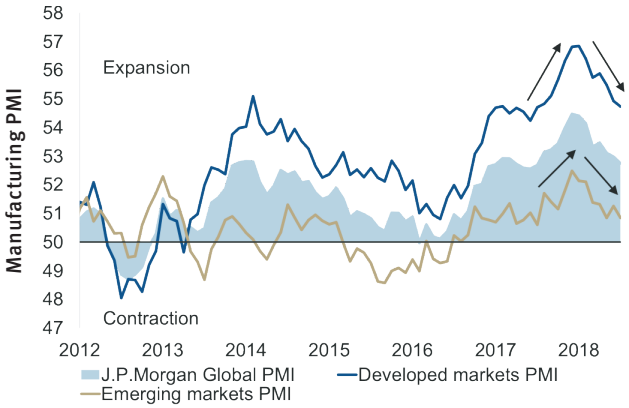
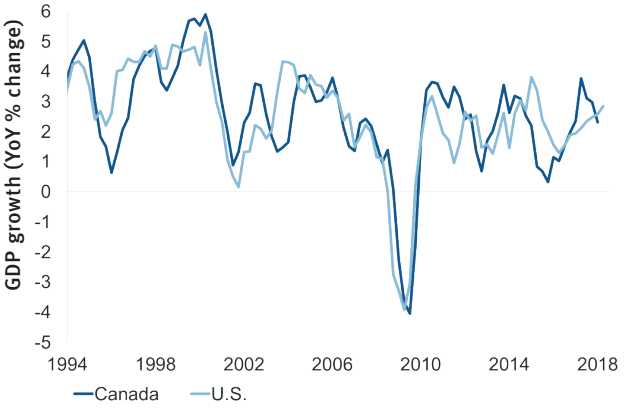
Global manufacturing growth retreated from peak



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

Canadian and U.S. growth moved in sync



Source: BEA, Statistics Canada, Haver Analytics, RBC GAM

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rates which has already put a damper on U.S. house sales and home buying intentions, as well as auto sales.

The cost of this two-year bump to U.S. GDP doesn't usually get much attention. But the CBO spells it out: the U.S. federal deficit, already a chunky $650 billion (3% of GDP) will hit a disturbing $1 trillion (5% of GDP) within two years and go on increasing inexorably for decades afterward.

Even without any fiscal push, the Canadian economy has been matching the U.S. stride for stride. However, there has been little rejoicing over this performance given preoccupations with tariff impositions, the fate of NAFTA, and stubborn energy transportation issues, none of which appear likely to enjoy early and unequivocal resolution. We think the new global trade landscape won't be discernible before next year, if then, nor will its true impact on global or domestic growth.

Earning confidence

All these uncertainties and many more notwithstanding, major equity markets have factored in the "higher earnings but slower growth" prognosis facing most of them in 2019. Price-to-earnings (P/E) ratios range from "fullish" in the U.S. (18.5x this year's estimated earnings) where the committed fiscal boost makes above-trend growth that much more certain, to "inexpensive" in Europe and Japan where growth prospects are more subdued and less certain.

In Canada, where the S&P/TSX is trading at about 15.3x estimated earnings, the P/E multiple discount to the U.S. has rarely been this wide.

This sanguine view about the prospects for continued earnings growth and share price valuation would change for the worse if investors came to believe a global economic downturn and, in particular, a U.S. recession were on the way. So far, the reliable indicators of an approaching U.S. recession, including the cost and accessibility of credit, employment conditions, as well as new orders and production levels, all suggest no such downturn is likely to arrive in the next several quarters.

As long as the economic data continues to support confidence in next year's earnings estimates and in the idea that the next downturn/recession lies beyond 2019 then global equity portfolios should be able to deliver worthwhile, all-in returns.

For a more detailed update on our outlook for fixed income and equity markets, ask for the latest edition of RBC Wealth Management's *Global Insight* publication.

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

No asset in your estate can be as emotionally charged as the family cottage

By Leanne Kaufman

As a cottage owner, open dialogue with the next generation is critical for avoiding potential conflict for those you leave behind.

Cherished tradition is deeply steeped in every aspect of our family cottage, largely because my children are the fifth generation making the annual trek north. Up to this point, both our island and the original family cottage (now owned by cousins) have remained in the hands of descendants. But in many instances, rising ownership costs, geographic inconvenience and general practicality mean not every family member can or wants to own property generation after generation.

Anyone who currently owns a cottage has undoubtedly given careful consideration to if, when and how to pass it on to the next generation. Ideally, conversations should begin early and be held frequently with both family members and professional advisors. But if you haven't started yet, here are some considerations to help with future conversations.

Managing family relationships

Cottages are often one of the most emotionally charged assets in any estate. While affordability can become a major point of stress, normal family dynamics and grievances can also become a factor in co-owner conflicts. In instances where all members of the next generation want to continue as owners, governance should be put in place to ensure a common agreement around things like allocation of expenses, shared versus exclusive use, and avoiding sale of an interest to someone outside of the family.

Several structures can be used to establish governance with co-ownership agreements, trusts and corporations being the most common. But even with best efforts to ensure equality and governance around ownership, things can go awry. I recently heard a story about a fifth-generation group of family cottage owners who had thoughtfully structured a corporate entity with share ownership, a board of directors that met regularly, and carefully defined share ownership rights. Even with all of the vigilant planning and careful consideration, family conflicts ended with them cross-examining each other in court and the legacy land being put up for sale.

Ensuring affordability

If you've considered passing your cottage on, then you've likely thought not only of who wants it, but also of who can afford it. The truth is that property values continue to skyrocket, impacting carrying and tax/capital gains costs for you and your spouse, and for your estate after you pass away. Future expenses, such as major capital repairs (a new roof or dock, for example) and escalating property taxes and utility bills, make cottage ownership a financial stretch for many.

One way to help ease this burden is to establish an estate-funded maintenance trust, or other fund, from your estate, assuming it is sufficiently large for this purpose. There may also be planning opportunities, such as use of the Principle Residence

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The family cottage ...
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Exemption, setting up a structure that gifts any future growth in the value of the property to the next generation or changing the ownership of the cottage generally. But, note, there are complex rules associated with this kind of tax and probate planning that require the knowledge and advice of a competent legal and tax professional.

The consequences of doing nothing

If you do absolutely nothing with respect to your cottage in your estate planning, then it falls into the general assets of your estate and may leave your executor with more discretion to deal with it than you intend. It may become the executor's job to have the conversations about which beneficiaries want or can afford to keep the cottage, or to make the decision to sell – which may place your executor in an awkward position.

You should also think about your future plans should you lose mental capacity (due to age-related dementia, as an example). Without proper planning, your named power of attorney (or court-appointed decision maker) may be in a position of having to sell your family's beloved cottage in order to fund your long-term care needs. These considerations should also be part of your broader planning conversations with your professionals.

No matter your circumstances, as a cottage owner, open dialogue with your next generation is critical, otherwise, it may be a recipe for conflict for those you leave behind. As a colleague recently advised me, despite the best of intentions, "be careful because you may end up having to choose between the cottage and your family relationships."

For more information, please contact us today.

Leanne Kaufman is 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 July 30, 2018.*

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

	Canadian dollar accounts	U.S. dollar accounts
All credit balances	0.05%	0.05%
Debit balances under $10,000	5.70%	7.25%
Debit balances $10,000 – $24,999	5.45%	7.00%
Debit balances $25,000 – $49,999	5.20%	6.75%
Debit balances $50,000 – $99,999	4.95%	6.50%
Debit balances $100,000 and over	4.70%	6.25%
All debit balances for registered accounts	5.70%	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 September 22, 2018. CAD Prime = 3.70% 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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