Portfolio Advisor

Wealth Management
Dominion Securities

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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.

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.

RBC Wealth Management
Global Portfolio Advisory Group

Raising rates, raising questions

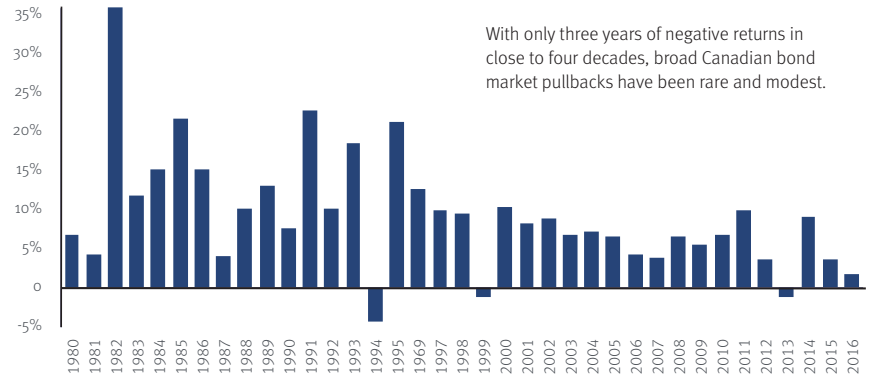
Four ways that rising interest rates affect investors

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.

Women and the family legacy

Women face numerous unique financial challenges throughout their lives, but one of the most important is that, on average, they live longer than their male spouses. Today, about 80% of women will outlive their spouse, and 65% of Canadians aged 85+ are women[1]. That means the vast majority of women will eventually be making key decisions about family finances on their own.

Are women engaged in their family finances?

A recent RBC Wealth Management study of high-net-worth individuals showed that 98% of women are involved in daily banking decisions and 84% are involved with the family investment portfolio. Further, the study showed women value family financial education, knowledgeable financial advice, and conducting financial research.

This shows that most women are highly involved with their family finances. So what's the worry?

The missing link: a wealth transfer plan

Despite high engagement in family finances, the study also highlighted that only 22% of high-net-worth women have a full wealth transfer plan in place. Yet, when it comes to transferring family wealth, women – probably more so than their male spouses – need to be prepared due to their longer life expectancies.

Wealth transfer 101

Transferring wealth is often about taking care of family or positioning younger family members to succeed. It can also be a way to pass on family values or create a lasting family legacy. A plan is the key to turning good intentions into good results.

The basics

While a **comprehensive financial plan** covers a lot more than wealth transfer, it's an important first step to making informed decisions about timing, appropriate amounts and the best methods for passing down wealth.

A valid **Will** is the guiding document for handling your estate and transferring your assets. Keeping it up-to-date helps address the changes that take place over your lifetime, and **choosing the right executor** helps ensure your wishes are carried out.

Plan for potential incapacity by choosing a **Power of Attorney** both for property and for personal care. Being a Power of Attorney can involve a great deal of time and responsibility. The attorney you choose can also have a significant impact on the handling of your estate, so carefully consider your selection.

Prepare your family

Take the time to **discuss and identify key family values**, whether it's education, professional life, community, philanthropy or otherwise. These conversations can serve as powerful uniting factors for families, help clarify the reasoning behind your decisions, and provide your beneficiaries with a sense of how to use the wealth they receive.

Regardless of age, **financial education** is vital in preparing anyone to inherit wealth. Beyond family discussions, providing formal education and holding meetings to introduce your team of qualified financial, tax and legal advisors can both help boost financial literacy.

The value of advice

Aspects of wealth transfer such as handling unique needs or complex family dynamics, maintaining privacy, minimizing taxation and ensuring your wealth will be distributed as you intend can sometimes seem overwhelming. However, there is a vast array of solutions and strategies to help navigate virtually any circumstance.

Estate planners and tax specialists can walk you through the pros and cons of gifting versus inheriting, or how to use beneficiary designations and joint ownership. They can also help you weigh tax, insurance or trust strategies. Regardless of the challenges, there are solutions that can be customized and aligned to suit your goals.

Contact us today to discuss getting your wealth transfer plan started.

1. Statscan, 2016, population by marital status, age and sex

Five ways to avoid a scam

There's nothing new about scams, fraud or stealing personal information, but it does seem that for every new convenience technology provides, a new scam appears. Protecting yourself might not always seem easy, but with a few helpful tips, and occasional reminders about the latest or most common scams, you can reduce the risk significantly.

1. Don't get caught by "phishers"

"Phishing" is a common online scam designed to trick you into providing personal information that can be used to rip you off or steal your identity. Scammers send you an unsolicited email that, at first glance, may appear to legitimate. Typically, the email will say there's some "problem" that requires your "urgent attention" and provides a link to a fake website, which requests your personal information. Remember, you should never provide personal information such as credit card numbers, passwords, date of birth or social insurance numbers, in response to an unsolicited email.

2. Practice safe surfing

Of course, not every email or website is a scam. For example, you may receive an email from a trusted service provider, reminding you to pay your bill online, and providing a link to their website.

If you're unsure whether the email or website is legitimate, reopen your browser and type in the company's website URL in the address bar yourself. Before entering any financial information, look for the lock icon on your browser and ensure the URL in the browser address starts with "https."

Avoid using public computers, keep your computer protection software up to date, choose effective security questions, and change passwords and PINs on a regular basis. Remember, if you're unsure about a website, you can always phone a company to verify using a phone number you know is legitimate.

3. Don't buy under pressure

Someone with a clipboard is knocking on your door. Your first instinct may be to pretend no one's home. But if you do open the door (or pick up the phone) and find yourself being asked to buy something or donate to charity, be careful. It could be a scam. If you are interested, don't commit on the spot, or provide any financial information such as your credit card number, especially if you're being pressured. You can always take the time to make your decision and research a company or charitable organization to ensure it's legitimate.

4. Invest with care

There are no guaranteed get-rich-quick schemes, and "secret" short-cuts to wealth or "hot tips" are also very likely scams. These scams are often about stealing money from you, or obtaining your personal information. Salespeople that pressure you to sign or invest immediately could be perpetrating a scam. When investing, it's best to work with someone you know who works for a reputable company.

5. Educate yourself

It seems like there's a new scam every day, whether it's an unusual request that seems "too good to be true" or someone using a hidden camera to steal your PIN. Learn about some of the most common scams by checking out The Little Black Book of Scams, published by The Competition Bureau of Canada, at www.competitionbureau.gc.ca.

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