RBC Dominion Securities Inc.

MacLean Wealth Advantage

Wealth Management
Dominion Securities

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Taking it all in stride

We finally have the U.S. election behind us and the world has breathed a huge sigh of relief. It was not a predictable outcome but the market has taken it all in stride. With a Republican President and Republican control of the House and Congress there may be an opportunity to make significant changes to the status quo. The impact to the global community is hard to predict at this time but as with most surprises the initial shock changes to acceptance and accommodation as time goes on. It was not an easy election process by any means and there will still be ongoing political battles as the weeks and months unfold.

The U.S. economy has been plodding along at a slow but steady pace with recent GDP numbers showing continued growth albeit at lower numbers than what most people would like. The U.S. Federal Reserve continues to hint at another rate hike in December but we shall see. This has been talked about for many years with only a token rate increase last year. Any significant changes in monetary policy may be left until President Trump is sworn in. Here in Canada the Federal Liberals have been hard at work dreaming up ways to inject some growth into the economy and have settled on infrastructure spending as a way to get things going. They are not concerned about the $100 billion plus deficits out to 2020 we will have as a result of this increase spending. Hopefully the trickle-down effect of all of this spending will have the desired effect of boosting our economy. Changes to our trade agreements with the U.S. and other countries will be slow to come and we do not seem to be the direct target of Mr. Trump's focus.

Commodity prices have recovered from their earlier year lows and it looks as though the worst is behind us. Our dollar as a result has rebounded nicely back up to the 75 cent level with some volatility related to the U.S. election. Given the relative weakness in our economy it is unlikely that Canada will follow suit with any rate increase the U.S. might impose.

In this issue we look at the new Client Relationship Model II (or CRM2), which is an initiative of the Canadian investment industry regulator that seeks to improve how the financial industry reports and discloses information to investors. Starting in the New Year, investors will receive two new reports on account costs and account performance.

We also have provided an overview of our services to you our client. Many of our clients have taken advantage of a broad array of complimentary offerings we provide and have found it very beneficial in their long term quest for financial security. Please review the information and if there is an area that you would like to look at in greater detail please let us know.

The global investment outlook

The RBC Investment Strategy Committee

As we reflect back on a quarter that contained one of the most surprising and consequential geopolitical shocks in years – the U.K. vote to leave the European Union – it is remarkable that financial markets managed to deliver handsome gains to investors and exuded calm. Economic data improved over the summer, global downside risks shrank somewhat and the decline in bond yields over the period seemed to strengthen the "search-for-yield" mentality, resulting in narrower credit spreads and higher stock valuations.

Downside risks have moderated

Risks to the global economy and markets have indeed diminished, but have not disappeared. Business-cycle risks are still front and centre, but perhaps a little less acute than before. Chinese downside risks remain sizeable, but our concerns for the country's housing and debt markets have shrunk slightly. Global debt risks are significant, but don't appear on the cusp of being triggered. Most evidently, the risk of further downside from emerging-market economies or commodity prices has been progressively fading for several quarters. One source of mild trepidation is that markets have been unusually complacent and it seems reasonable to budget for something a little bumpier, especially with the many event risks approaching over the fall. While there are many reasons for concern, our base case scenario is one where the economy is able to handle these challenges and continue to grow, albeit slowly.

Central banks still front and centre

The U.S. Federal Reserve (Fed) continues to press forward with its plan to nudge the fed funds rate higher. A rate hike is considered more likely than not by the end of 2016. While we believe a modicum of Fed tightening is justified and thus at worst benign for risk assets, we must not completely forget that the financial markets struggled in the months after the last rate increase.

Globally, many central banks are still focused on delivering prior quantitative-easing commitments, and some are continuing to build on those promises. The Bank of England has been buying corporate bonds anew since Brexit, while the Bank of Japan increased the clip of its asset buying in the spring. The European Central Bank is also pressing forward with its own bond-buying program. Thus, there are still powerful downward forces on yields at work.

No change to asset mix

We have opted to maintain our recommendation for a moderately overweight equity allocation. This is motivated primarily by the superior valuations of equities over bonds, and secondarily by our belief that further economic advances remain more likely than not, especially as downside risks have declined slightly. Even slow economic growth will be sufficient to allow for a modest increase in interest rates, which will act as a headwind for fixed-income investments. Coupons are so low that they do little to cushion against capital losses resulting from even a slight increase in yields. We forecast negative total returns for 10-year sovereign bonds across all major developed regions over the year ahead and remain underweight fixed income as a result. For a balanced global investor, we currently recommend an asset mix of 60% equities (strategic neutral position: 55%) and 37% fixed income (strategic neutral position: 43%), with the balance in cash.

Continue to prefer stocks over bonds

The valuation mismatch between stocks and bonds is sufficiently large to continue to warrant an overweight equity position, despite the risks described above. In fact, our analysis shows that returns for stocks could exceed those for fixed-income markets across most relevant time frames, with bonds producing low or even negative total returns for many quarters ahead. Over the past quarter, we increased the equity exposure in our recommended asset mix by two percentage points, sourcing the funds from bonds. For a balanced, global investor, we recommend an asset mix of 62% equities (strategic neutral position: 55%), and 36% fixed income (strategic neutral position: 40%), with the balance in cash.

Newsflash

- Making a charitable donation is one way to significantly reduce the personal tax you pay and may result in a tax credit of about 50%. RBC now offers you the ability to make a charitable donation through the creation of a Family Foundation in conjunction with Gift Funds Canada. Please contact us for more details on this unique opportunity.

Providing greater clarity with CRM2

What the Client Relationship Model II means to you

You may have heard about it in the news – the Client Relationship Model II, or simply "CRM2." CRM2 is a new set of industry regulations meant to provide investors with more details on their investment costs and performance. It was developed by the Canadian Securities Administrators, an organization representing Canada's investment industry regulators. All investment firms, including RBC Dominion Securities, will be providing these additional details on your existing statements and in two new reports that will be delivered to you.

For our clients, the additional details required on existing statements should be business as usual as RBC Dominion Securities has already been delivering most of this information on our statements. But for some investors in Canada, the new details on statements will provide more information than they are used to receiving.

The more significant changes will occur in early 2017, when two new reports will be delivered to clients:

1. One report will disclose the costs paid by the client to the firm and other compensation received by the firm in relation to services provided to the client from each account annually.
2. A second report – an annual performance report – will show an account's returns over certain time periods. Notably, this report will show "money-weighted" rates of return. This is a different way of calculating investment performance than the "time-weighted" method that is currently used by RBC Dominion Securities and across the industry. Some think of money-weighted as a "personal" rate of return because it factors in the impact of the amount and timing of money you deposit into or take out of your account, whereas time-weighted does not.

The effect of these two new reports will be to provide investors with a better understanding of what they are receiving for the money they are paying their advisor's firm for the products and services they receive. Clients with multiple accounts will receive multiple reports.

It is important to know that there is no change to the costs that you are paying as a result of these new reports. They are meant to provide a detailed and transparent disclosure of the cost of investments.

The new reports will highlight some costs that you may not have seen detailed before. One of those costs is a trailing commission paid by fund companies to the firm for which your advisor works – in our case RBC Dominion Securities. The trailing commission pays for value-added activities that your advisor and their firm provides with respect to the mutual fund including: the infrastructure required of your advisors's firm to support the distribution, sales and servicing of the mutual fund, monitoring and portfolio re-balancing, and ongoing and regulatory client communications and activities.

There are a host of benefits and functions that are covered by the costs that you pay for your investment accounts. The advice and service provided to you on a day-to-day basis, the protection and privacy of your information and assets, the ability to access accounts online, capital markets research, back-office transaction processing, custody statements, tax reporting, risk controls and regulatory compliance to name a few. We are focused on achieving the best results for your wealth and the infrastructure we have in place provides a premier offering to help you realize your financial goals.

Investment alternatives

The following are some alternatives for balanced investors looking for consistent returns with lower market volatility

Fidelity NorthStar Balanced Fund

This fund aims to achieve long-term capital growth and invests primarily in a mix of equity securities and fixed income from around the world. It can invest in these securities either directly or indirectly through investments in underlying funds. Rates of return for this fund are: 5.20% (one year), 11.11% (two years) and 10.98% since inception (as of Oct. 31, 2016).

Mawer Global Small Cap Fund

This fund invests primarily in equity securities of smaller companies around the world, diversified through currencies, industries and countries to increase safety and growth. The Manager employs a highly disciplined, research-driven and long-term holding period to allow for investor recognition. The performance on this fund has been 11% (one year), 19.4% (three years) and 23.5% (five years), as of Sept. 30, 2016.

Edgepoint Global Growth & Income Fund

The portfolio seeks to provide long-term capital appreciation and income generation by investing primarily in global equity and fixed-income securities. Their managers look for companies with strong competitive positions, defendable barriers to entry and competent management teams. The performance on this fund has been 4.95% (one year), 11.24% (three years), 13.44% (five years) and 13.60% since inception (as of Oct. 31, 2016).

Fidelity Canadian Balanced Fund

The investment objective of this fund is to achieve high total investment-return by allocating assets primarily among Canadian stocks, investment grade bonds, high yield securities, and money market instruments. Rates of return for this fund has been 7.39% (one year), 7.58% (three years). 7.88% (five years), 6.09% (10 years) and 7.99% since inception (as of October 31, 2016).

Canadian economic indicators	2015A	2016F	2017F
10 year yield (%)	1.56	1.18	1.89
Real GDP (%)	1.20	1.20	1.80
Consumer price index (%)	1.20	1.60	2.00
Unemployment rate (%)	6.90	7.00	6.90

Rates as of November 9, 2016. Source RBC Dominion Securities.

Market outlook	Current	YTD(%)	52 Week %	2015	2014
TSX Comp	14,759	13.5	10.1	-11.1	7.4
Dow Jones	18,589	6.7	4.7	-2.2	7.5
Nasdaq	5,251	4.9	3.3	5.7	13.4
S&P 500	2,163	5.8	1,5	-0.7	11.4
Crude Oil	44.94	2.5	-11.3	-30.5	-45.9
Gold	1,281	20.8	17.6	-10.4	-1.7
CAD Dollar	0.75	3.5	-0.6	-16.0	-8.6

Figures as of November 9, 2016. Source RBC Dominion Securities.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Any performance data provided does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would result in reduced returns. Mutual funds are not guaranteed, their values may change frequently and past performance may not be repeated.