MacLean Wealth Management Group
of RBC Dominion Securities

Advantage

Wealth Management
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Interesting times

We have an interesting President in the White House. Historical protocols and long-held traditions are cast aside as President Trump puts his own stamp on doing things in the Oval Office. He has had mixed success in enacting new rules using presidential executive orders while passing new legislation has been much more problematic and time consuming. The time limit for reversing the previous administration's rules has run out and now to make changes will mean going about it through the normal process of approvals. We still await concrete action on healthcare and tax reform in the U.S.

In the meantime, corporate profits in the U.S. continue to increase overall and the markets have been stuck in a narrow trading band near their all-time highs. Having moved ahead strongly in the past few months it is healthy and necessary for the markets to take a breather from time to time to allow fundamentals to catch up to the valuations.

In Canada, recent economic data indicate that our economy is still doing well with surprisingly strong growth in Alberta, Ontario and B.C. Housing strength in the Toronto market may have begun to cool off as new foreign taxes and increased supply may finally put a lid on rising prices. Overall housing strength across Canada continues to be strong in the wake of continued low interest rates.

Canadian banks, on average, have just reported better-than-expected earnings from operations and very low loan loss provisions. Comments from several bank CEOs confirm their view that there is little concern about loan losses in the housing market for the foreseeable future. Rates continue to be low and there is no indication that the Bank of Canada will raise interest rates any time soon. This should help stabilize the housing market and allay fears of any significant correction.

In this issue, we look at the importance of naming a suitable executor for your estate, we review our global economic and market outlook and we offer some ideas for low volatility investments. Thank you for your interest and consideration and please contact us if you have any comments or questions.

The global investment outlook

The RBC Investment Strategy Committee

Leading economic indicators are at their best levels in several years, economic surprises have been overwhelmingly positive and corporate earnings continue to recover from their prior stumbles. Taken together, global economic signals remain quite strong by post-crisis standards. As a result, risk assets such as equities and corporate credit have performed well.

The biggest question on the minds of global investors relates to what the Trump administration will do in the next four years. There is still enormous uncertainty around precisely how U.S. public policy will play out. So far, optimists would appear to outnumber pessimists: equities have soared, the U.S. dollar has risen, bond yields have gone up and credit spreads have narrowed. It's important to recognize that this bout of market enthusiasm actually began well in advance of the election, but the political outcome provided a further springboard.

Faster economic growth, but we are not abandoning our "slow-growth" view just yet

Economic growth has improved in both developed and emerging markets, with most countries managing some improvement in recent months. Weighing the available evidence, we choose to celebrate this period of faster growth, but we assume that the current episode represents a fluctuation toward the high end of the post-crisis growth range rather than a permanent escape from the "slow-growth" environment. We continue to see a plethora of factors that will constrain economic growth going forward. We have moderately upgraded our 2017 growth forecasts this quarter but assume that some portion of the recent vigour will be shed into the second half of the year and into 2018.

Downside risks manageable

Risks to our outlook include the aging business and credit cycles, rising populist movements, higher interest rates, elevated Chinese debt loads and an ever-evolving and uncertain political landscape in the U.S. and Europe. We expect that the global economy will be able to move beyond these risks and continue to grow and possibly even accelerate, though still running at a pace below long-term historical norms.

Stocks extend gains, earnings outlook brightens

Surprisingly strong economic data, surging consumer and business confidence, and better-than-expected earnings propelled stocks higher in the past quarter, with most major indexes delivering gains in the mid to high single digits. Emerging markets, European and U.S. equities rose the most, while gains for Japanese and Canadian stocks lagged. Although stocks have enjoyed a solid rally, we don't think that valuations are as stretched as some investors believe. Traditional price-to-earnings ratios, in particular, do not factor in interest rates and therefore may appear elevated when compared to history. Our own multi-factor model, which incorporates current levels of inflation, interest rates and corporate profitability, suggests U.S. stocks are actually a bit below fair value. However, we do recognize that stocks are not as cheap as they were, so a continued improvement in earnings is needed to fuel further equity gains. Fortunately, a recovery in profits is well under way. In fact, S&P 500 earnings exceeded analysts' forecasts in the fourth quarter and now appear to be accelerating. While there are risks that some of Trump's protectionist policies could have a negative impact on earnings, significant gains are also possible if large-scale corporate-tax cuts materialize and the economy accelerates.

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.

Naming your executor – seven common pitfalls and how to avoid them

If asked by a family member or friend to serve as their executor, most of us would consider it an honour. However, it can be a complicated, sometimes overwhelming undertaking. That's why it's important to carefully consider your choice as executor. Following are seven issues you should be aware of when naming your executor:

1. Not considering your executor's age and health
Many people choose someone close to their own age to act as their executor, such as their spouse, a sibling or a close friend. That may be fine when everyone is younger and in good health. However, when the time comes to act, the person you have named may no longer be up to the task due to their age or health. It's also possible that they will predecease you. Make sure you review your choice of executor as time goes on, and consider naming someone from the next generation.

2. Overlooking family conflict
Let's face it, family can be complicated. That's why it's important to select an executor who is able to manage potential family discord and balance conflicting interests. To help your executor, consider talking with your beneficiaries in advance, so they clearly understand your final wishes and the reasons for your decisions.

3. Selecting someone too busy
It can take 1-2 years to settle a basic estate, and longer if you have a more complex estate. If you are establishing trusts in your Will, your executor's responsibilities could stretch into many years or even decades. This can be challenging for your executor if they have a busy life, so think about naming someone who will likely have the time to carry out their duties, or arranging professional assistance to help them.

4. Choosing someone too far away
Your executor will be responsible for many tasks that are much easier to do if they are closer to where you live.

5. Naming an expat executor
When a non-resident of Canada acts as the sole executor of a Canadian estate, the estate may be considered a non-resident of Canada. This could result in the loss of tax advantages enjoyed by Canadian-resident estates.

6. Putting honour before duty
You may feel like you have to name someone in particular as your executor – someone who may "expect" the honour. However, your executor will have duties that require a certain level of technical expertise, such as filing tax returns. What's more, your executor could potentially face personal legal liability if they don't properly carry out their duties. As a result, you should carefully consider your executor's level of expertise.

7. Not getting professional assistance when you need it
Ultimately, you may find it difficult to find someone ideally qualified to act as your executor. Avoid naming someone just because you have to name someone. Give some thought to either hiring a professional to act as your executor, or to support your executor in carrying out their duties.

For information about choosing an executor, please contact us.

Market outlook

	Current	YTD(%)	52 Week %	2016	2015
TSX Comp	15,416	0.8	9.3	17.5	-11.1
Dow Jones	21,080	6.7	17.9	13.4	-2.2
Nasdaq	6,210	15.4	25.9	7.5	5.7
S&P 500	2,415	7.9	15.1	9.5	-0.7
Crude oil	49.79	-12.3	-3.6	20.5	-30.5
Gold	1,267	10.1	3.9	8.6	-10.4
Cdn. dollar	0.74	0	-3.5	3.0	-16.0

Figures as of May 2017.
Source: RBC Dominion Securities.

Investment alternatives

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

BMO Low Volatility Canadian Equity ETF (ZLB)

This ETF has been designed to provide exposure to a low beta weighted portfolio of Canadian stocks. Beta measures the security's sensitivity to market movements and the ETF utilizes a rules-based methodology to build a portfolio of less market sensitive stocks from the Canadian large cap stocks. Rates of return for this ETF are: 15.6% (1 year), 14.2% (3 years), 15.7% (5 years) and 16.2% (since inception) as of April 28, 2017.

BMO Low Volatility US Equity ETF Hedge to the CAD (ZLH)

This ETF had been designed to provide exposure to a low beta weighted portfolio of U.S. stocks. Beta measures the security's sensitivity to market movements. The ETF builds a portfolio of less market sensitive stocks from a universe of international large cap stock. Rates of return for this ETF are 6.6% (1 year) and 12.5% (since inception) as of April 28, 2017.

BMO Covered Call Utilities ETF (ZWU)

This ETF has been designed to provide exposure to a portfolio of utilities, telecom and pipeline companies, while earning call option premiums. The call options are selected based on the option's implied volatility and are written in proportion to the securities weight. The option premium provides limited downside protection. Rates of return are 12.2% (1 year), 3.7% (3 years), 4.6% (5 years) and 5.3% (since inception) as of April 28, 2017.

iShares Edge MCSI Multifactor Canadian ETF (XFC)

The fund seeks to provide long-term capital growth by replicating the performance of the MSCI Canada Select Diversified Multi-Factor Index. Selects securities based on four historic drivers of return: value, momentum, quality and low size. Rates of return for this fund are 14.9% (1 year) and 11.8% (since inception) as of April 30, 2017.

Canadian economic indicators			
	2015A	2016F	2017F
10 year yield (%)	1.18	2.00	2.24
Real GDP (%)	1.20	2.40	1.95
Consumer price index (%)	1.60	1.90	2.00
Unemployment rate (%)	7.00	6.65	6.60

Figures as of May 2017.
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.