Wealth Management
Dominion Securities

Portfolio Advisor

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Around the world

Canada

Having raised interest rates at the fastest pace in 40 years, the Bank of Canada has squarely set its sights on quelling inflation – and quickly. Regardless of the economic impact, the Bank clearly sees inflation as enough of a threat that it warrants a strong response. This leaves the near-term future of the economy, and in particular the housing market, in question. While job growth has slowed dramatically over the summer months, job openings continue to suggest that there is strong latent demand from consumers. With the economy under pressure from rising living costs and interest rates, the equity market has declined, with even the energy sector beginning to give back its phenomenal 2022 returns.

United States

Employment and consumer spending remain bright spots for the world's largest economy. However, there are signs the U.S. Federal Reserve's (the Fed's) interest rate hikes are tamping down business activity, as intended, in order to fight inflation. The housing market is also showing signs of weakness, which is a key indicator that the current U.S. business cycle is nearing its end. Stocks have reflected the uncertainty around the tenacity of inflation, the Fed's end goal for interest rates, and the sustainability of corporate profits in the face of an increasingly likely economic decline. While the consensus view for economists is that the U.S. will suffer a recession in 2023, the degree of its severity remains in question, leading to ongoing market volatility for investors.

Europe

The sharp rise in inflation has hit consumers and businesses across the region hard. Global supply issues, a post-pandemic surge in local demand and the resurgence of tourism have combined with surging energy prices to drive up the cost of living. The embargoes against Russian oil, and the country's own refusal to supply natural gas to the region's markets that support Ukraine, is leading to an energy shock crisis for some of Europe's largest economies. While the European Central Bank is likely to continue to tighten monetary policy, it must tread a fine line between taming inflation and snuffing out economic activity in the months ahead. Investment markets have responded by moving sharply lower, and the economy is likely to give little support to equity values in the months ahead..

Emerging markets

Emerging markets have been underperforming developed markets for more than a decade, with the most recent culprit being the juggernaut U.S. dollar. However, a number of the largest emerging-market economies are now in a stronger position to rebound than developed markets, as many of their central banks were ahead of the curve in tightening monetary policy last year. Asia's economic growth is likely to slow in the months ahead due to tighter financial conditions, and China continues to curtail its growth with COVID-19 lockdowns. Higher inflation is expected to trigger a quickening in monetary tightening across Asia, with governments offering increased financial assistance to households. Worries over slowing growth have also hit the region's markets, with most markets in bear or sharp correction territory.

To learn more, please ask us for the latest issue of *Global Insight*.

Finding the boon in the bear

How investors can uncover important learnings in challenging markets.

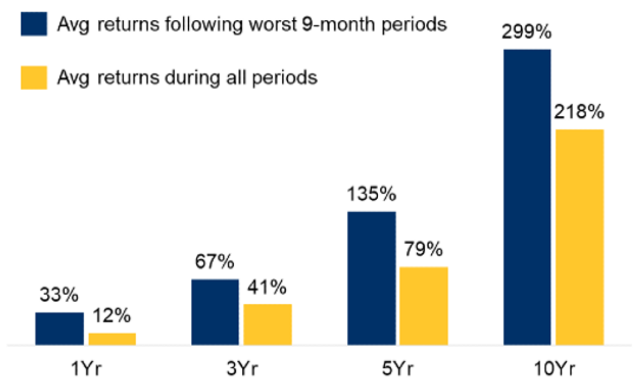
Economist and Nobel Peace Prize co-winner Paul Romer once quipped that “A crisis is a terrible thing to waste.” A crisis in the investment world is called a “bear market” – a fall of 20% or more from the market’s previous high – and could also be fairly said to be a terrible thing to waste.

First, it’s often an excellent opportunity to buy undervalued assets and potentially watch them recover sharply when the bear market finally ends. Second, it can help us to recognize the emotions that it triggers and help us to successfully manage them now and through future market crises.

Learning: Bear markets provide important value to patient, disciplined and long-term investors

2022 has been a very challenging year for investors, bringing with it massive increases in interest rates, real fears of recession and destabilizing global political and supply-chain issues – all of which have affected stock and bond prices. Most global markets are firmly in bear market territory or near to it, testing investors’ tolerance and perseverance.

However, historically, patient investors who remain true to their wealth plan, and stay invested even through challenging periods, have been well rewarded. The following chart demonstrates the payoff to investors for seeing past the pain and to the opportunity:



Source: Compound Capital Advisors. Data is from January 1971 to September 2022. Returns reflect the Wilshire 5000 Index (broadest U.S. equity index) in U.S. dollars, comparing the average forward cumulative returns following the worst 9-month declines (from the table above) to the average cumulative returns during all periods between 1971 and 2022.

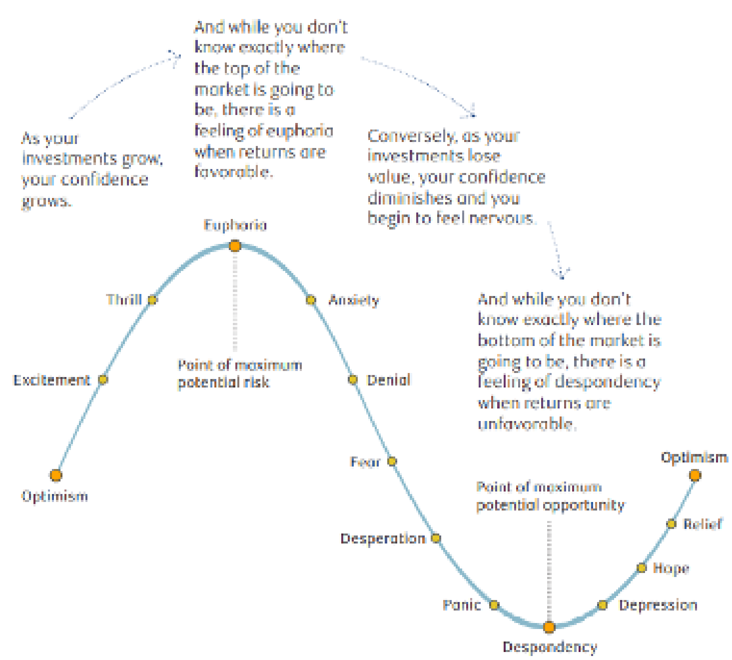
Learning #2: An emotional test at times, but markets historically always reward

History has shown us that investing can be volatile at times, testing our perseverance and discipline to stay on track to our plans. In fact, bear markets occur, on average, every seven years, generate an average loss of 35%, and endure two-and-a-half years. But, as the chart here shows, our emotions are often at their lowest – despondency – right at the point that markets turn around, and they often lag the market's rebound.

Managing these responses begins with our awareness of them and being conscious of the way we feel throughout the market cycle. This can help us anticipate responses that would otherwise lead to emotionally driven decisions in a moment of crisis that often result in poor long-term outcomes. Proper portfolio construction and a wealth plan that accurately reflects your goals can also help ease the emotional strain of volatility and bear markets, while helping you see the long-term payoff of remaining invested.

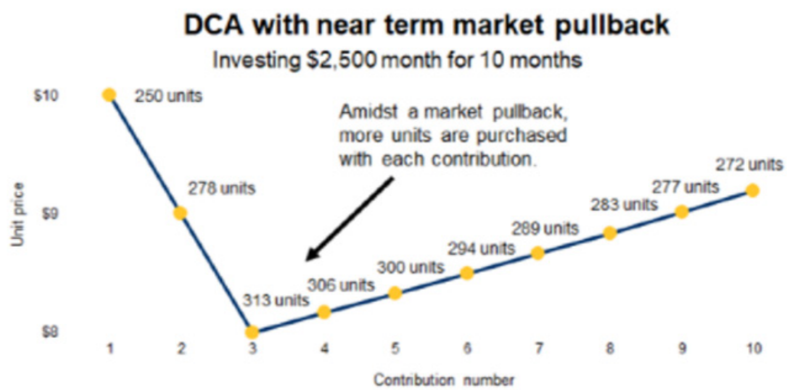
Bear markets: Real-world “stress testing”

If you are concerned that the recent market downturn might lead you to veer off of your investment plan, talk to us today. We can help you manage your emotions and stay on track to your plan, while making sure that your plan and portfolio are right for you – even through the most stressful market conditions.



Building wealth one step at a time

Dollar-cost averaging (DCA) is a simple but effective investment strategy that works through every type of market – and can be especially rewarding during volatile markets. With DCA, you invest a certain amount at regular intervals, say monthly. Over time, your investment builds up, one small but manageable step at a time. What's more, you lower the average purchase price of your investments – buying more when prices are down, and buying less when prices are up.



Source: RBC Global Asset Management. For illustrative purposes only. Note: In this example, we assume that markets are 8% lower at the end of the 10-month period than they were at the start.

The discipline: Regular investing

Regular investing is a simple concept, but can help you build wealth over time with discipline, consistency and compounding (see chart below). You contribute at specific intervals that are convenient for you, such as weekly, bi-weekly, semi-monthly or monthly. Ideally, the contribution amount is manageable and sustainable, and comes automatically from your bank account.

The great thing? Regular investing is a "set-it-and-forget-it" strategy that makes it easier to build wealth. It reduces the need to make often-difficult decisions on whether to spend for today or invest for tomorrow. It helps ensure contributions are always made – and that is the number one reason why it helps build wealth.

The strategy: DCA

By investing regularly, you can take advantage of a potentially powerful strategy: DCA. When markets are down and prices are lower, you buy more investments and/or units with the same regular investment amount. When markets are going up, your existing investments benefit from that performance by rising in value. At the same time, as markets rise, you buy fewer investments at the higher prices. Over time, you can potentially reduce the average purchase price of your investments, helping to enhance your long-term return potential.

Consider the following scenario:

- You have $25,000 to invest.
- You invest $2,500 each month for 10 months.
- Your investment declines 20% over the first two months.
- Your investment increases by 15% over the following eight months.

As you can see from the chart above:

- At the start, you purchase 250 investment units with your monthly $2,500 contribution.
- As the price dips, you acquire larger number of units each month with that same dollar contribution.
- At the end of 10 months, you have more units than if prices had remained flat, which should ultimately benefit you over the long term as markets recover higher.

A powerful combination

The path to your goals can sometimes seem long and unattainable. But the combination of DCA and regular investing can help you build towards your long-term goals one manageable step at a time. It helps you take advantage of discipline and patience – and the market's own volatility – to build wealth and achieve your goals over time.

Your monthly savings can really add up

	Monthly contribution amount			
Number of years invested	$50	$100	$250	$500
5	$3,309	$6,618	$16,545	$33,090
10	$7,335	$14,670	$36,674	$73,348
15	$12,233	$24,466	$61,164	$122,329
20	$18,192	$36,384	$90,960	$181,921
25	$25,442	$50,885	$127,212	$254,424

Assumes a 4% annualized rate of return.
Source: RBC Global Asset Management Inc.
The rate of return is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual fund or returns on investment in the mutual fund. Actual results may vary.

Giving is its own reward...but a tax receipt can be rewarding too!

Giving to worthy charities at any time is a good thing. But as year-end approaches and our mail and email boxes fill up with solicitations, our hearts and our minds – given the various methods to give and the impact of each option on your charitable tax deductions – are often particularly drawn to charitable giving. As year-end is the cut-off to make a donation that can be used on your 2022 tax return (it can also be carried over to future tax years), now is a good time to consider how you wish to give. With so many in need, and inflation biting into what Canadians can spare, here are some of the ways you can maximize your giving.

Kind Canadians

Many Canadians give to charities, whether through their time, by sponsoring others, or directly through cash donations or donations in-kind of securities and/or other assets. In fact, according to a recent philanthropy survey conducted on behalf of the Association of Fundraising Professionals*, approximately 75% of Canadians donated to charity in the prior year, and gave on average $1,000 each. Despite a pandemic-induced drop-off in volunteerism, still fully 23% of us braved the challenges and gave with their time. Looking forward, the vast majority of Canadians not only plan to continue to give, but to increase their giving in the years ahead.

Given how important giving is to and for so many, knowing your options and what might work best for you is critical. Here are three options to consider:

1. Give cash and claim your federal and provincial tax credits

With some planning, tax savings can fund close to 50% of your gift in some provinces and territories. For donations over $200, the provincial tax credit is usually equal to the highest marginal tax rate – but this amount varies by province. The federal tax credit your donation attracts depends on a few factors, like your marginal tax rate and the amount of your donation. To ensure you take advantage of these credits, discuss your charitable giving with your tax advisor.

2. Set up a charitable gift fund

With a charitable gift fund, you can support charitable causes that are important to you while receiving potentially significant tax advantages. To set up your own fund, you need to make an initial irrevocable contribution beginning at $25,000, then you can make additional contributions of $250 or more at any time. You can invest the contributions in a way that reflects your individual philanthropic objectives, and recommend grants from the fund to qualified charitable donees whenever you wish. You receive tax receipts for your contributions, which can potentially enable you to give more. To determine if a charitable gift fund is right for you, please contact us.

3. Be kind and give in kind

You normally pay tax on a portion of capital gains triggered by the sale of a stock or bond, but this tax rate is reduced to 0% when you instead donate the securities directly in kind to a qualified donee, as follows:

If you are interested in learning more about how to maximize the impact of your contributions, please speak with us today.

Donating cash vs. donating shares

	Sell shares and donate cash	Donate shares directly
FMV of donation (a)	$2,000	$2,000
Adjusted cost base	$1,000	$1,000
Capital gain	$1,000	$1,000
Taxable capital gain	$500	$0
Tax on capital gain ($500 x 50%) (b)	$250	$0
Donation tax credit ($2,000 x 46%) (c)	$920	$920
Total cost of donation = (a) + (b) - (c)	$1,330	$1,080

Assumptions: Net tax savings from donating shares: $250 ($1,330 - $1,080), assuming that donations of $200 have already been made. Marginal tax rate of 50%; donation tax credit of 46%. Also assumes the person has taxable income below the top bracket and donations in excess $200.

Source: *What Canadian donors want, the Association of Fundraising Professionals (AFP) Foundation for Philanthropy - Canada. Survey conducted by Forum Research, and sponsored by Fundraise Up. (October 2021).

Lots of phish in the sea

How to avoid "phishing" emails and cyber fraud

Phishing is the cybercriminal behaviour of sending emails purporting to be from legitimate companies that induce individuals or businesses to reveal personal, financial or business information, such as passwords, account and credit card numbers. These fake emails can be difficult to recognize as fraudulent, but there are certain things you should look out for.

The Phishy Five: Five things we will never ask you to do or to provide us

To help protect yourself from cybercriminals, look out for these five things, which RBC will never ask you to do or to provide. If you see an email asking for them, hit "Delete", and call us to ensure all is well.

1 **Provide online banking codes like your secure key, four-digit PIN or password:** RBC will NEVER ask you to provide your password to confirm your identity or anything else. If you call into the RBC Banking call center, a banking representative might ask you to confirm your identity with your four-digit security PIN, but only when speaking to you directly, and never via email.

2. **Confirm a transaction you didn't complete is "authorized":** RBC will never send such a request – period. We do not confirm transactions after the fact, not to mention via unsecure email.

3. **Send money or purchase gift cards:** A popular way for cybercriminals to get money from their victims without any way to trace it is to have you send money through a wire service or by purchasing gift cards and providing those to an agent of the fraudsters. We will NEVER ask you to wire us money or to provide us with payment using gift cards.

4. **Transfer funds to a different account for "safekeeping":** This scam is growing, and often represents a breach of your email account. Using your email, the cybercriminals know you have a legitimate transaction underway (e.g., a house purchase or RRSP contribution), and their aim is to divert the funds you are providing us to an account that looks official, but which is actually under their control.

5. **Click on a document or link:** We will NOT send you documents and/or links to click on, and that includes to do so via file-sharing services such as DropBox and iCloud. We will only do so when you have advance awareness that such a document or link will be directed to you (for example, if your Investment Advisor shares a link with you or provides you with a newsletter containing links in it).

Call before you click!

Despite their increasing audacity and cleverness, cybercriminals can't bypass one very important validation step: contacting your advisor and/or their team, or calling the Call Centre support number on the back of your bank or Visa card. And, using secure platforms to correspond and transact, such as RBC Wealth Management Online, will help you avoid being compromised. To learn more, check out the RBC Cyber Security site at www.rbc.com/cyber-security/ (don't worry – it's safe!) for helpful insights to defend against cybercrime, while keeping you up to date on the latest scams.

Recession-proof your portfolio with the three Rs

What do you do with your investment portfolio when you hear the infamous “R” word – recession? It’s easy. Just follow the three Rs: review, rebalance and relax.

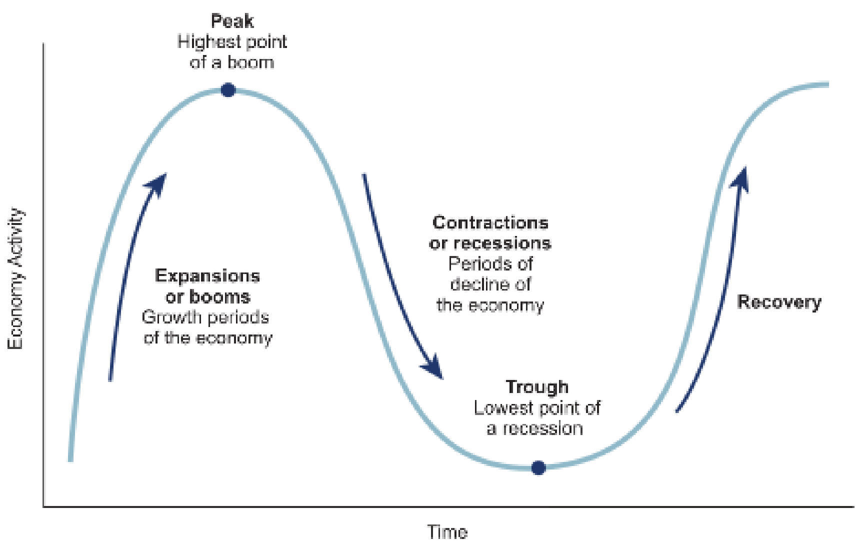
Recession: the nasty nine-letter word

The strong post-pandemic economic boom – combined with global supply chain issues and massive increases in energy prices – has caused a surge in inflation to levels not seen since the 1980s. In response, almost every major central bank is scrambling to increase interest rates to tamp down demand and regain control over prices. So much so, in fact, that the Governor of the Bank of Canada recently stated that it was better for our long-term economic well-being to use restrictive monetary policy to induce a recession – where the economy ceases to grow or even contracts for two consecutive quarters or more – than risk allowing inflation to take hold.

To fight inflation, the Bank of Canada’s overnight rate has climbed from 0.25% back in the spring to 3.75% today – a historically sharp and rapid increase. And the hikes are likely to continue. As a result, most economists now agree that a sharp economic slowdown is coming. The hoped-for “soft landing” – where the economy slows but doesn’t enter a recession – is becoming increasing unlikely.*

“R”-proofing your portfolio

Already suffering from rising interest rates, and now anticipating a recession, markets have turned negative and volatile in 2022, reflecting the uncertain and bumpy road ahead. Volatile markets often generate strong emotional reactions in investors, sometimes prompting them to veer off course from their investment plans. This can lead to common investment pitfalls like taking inappropriate and ill-advised risks, buying high and selling low, and moving to “the sidelines” (i.e. cash), thereby missing out as the markets recover.



Similarly, reacting to the “R” by altering your investment plan is rarely the right move. Instead, investors would be well served to follow the three Rs:

- **Review:** Volatility can spur some difficult-to-manage emotions, and to questioning one’s goals and the plan to achieve them. Does your investment plan still align with your goals? Is your risk profile still accurate? These are important questions and concerns to review with us if your financial or personal circumstances have changed.
- **Rebalance:** Your portfolio should be balanced in a way that maximizes your investing efforts to help achieve your goals, while reflecting your appropriate risk profile. If your portfolio has drifted out of the balance as a result of market movements or other factors, speak with us to review and rebalance it, as necessary.
- **Relax:** Once you’ve reviewed and rebalanced, if and as necessary, you can relax with confidence that you are on the right track to your goals.

Remember, recessions are usually short-lived events, and your portfolio is designed to achieve long-term goals – like retirement – that are in the future and that stretch over many years. So changing your long-term plan as a result of short-term challenges is rarely advisable.

*Proof Point: Canada’s recession to arrive earlier than expected, RBC Economics. October, 2022.