

MARCH 2014

# Sandra Sparanese's Financial Focus



Views and opinions for the  
clients and friends of

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## *A BUSY START TO THE YEAR*

Well, I must say that the months of January and February have gone by in record time. It is always a busy time of the year with TFSA contributions in January, and RRSP contributions up to the start of March.

Volatility was the word of the day at the start of this year. It's a good reminder that markets do not move in a straight line in either direction. Stock markets in North America were down by about 6% in January and February and then rallied back to near the same levels. Volatility is a normal part of investing and is, in fact, always present to some degree. Long considered the "golden rule" of investing, diversification remains the best way you can reduce investment risk. Diversification in simple terms involves investing in a number of different investments – across different asset classes, industry sectors, geographic regions, investment styles, etc. This way, you can minimize the impact of poor performance, both from a single investment and groups of investments with similar characteristics. I always like to check in with clients on their "sleep at night factor" which is generally speaking a good measure of risk tolerance during periods of market volatility.

We can't control the daily movements of markets, the direction of interest rates or currencies, or political events around the world. What we can control is having a plan to achieve our goals.

*"If you don't know where you're going, you'll probably wind up somewhere else."*

Financial planning is the ongoing process that takes into account the "whole you". Your financial life – your income, assets, liabilities, etc. – and your personal life – your values, dreams, wants, needs, and time horizons. As a Financial Planner and Investment Advisor, it is my job to make sure your investment strategy is the right one for your financial plan – which continues to change and evolve as you reach different stages in your life.

I am looking forward to a fantastic 2014 working with great clients and RBC colleagues.

*Sandra*

## **TAX SLIPS**

*Make sure you receive all required tax slips to file your income tax return. T-5 income related slips have been mailed out in February. All other tax slips will be mailed out during March. To view our tax reporting guide, please visit [www.rbc.com](http://www.rbc.com).*

## THE PSYCHOLOGICAL PITFALLS OF INVESTING (AND HOW TO AVOID THEM)

Do you get anxious when the stock markets are volatile? Or do you feel optimistic that everything will turn out fine? Both reactions—natural parts of your psychological makeup—can actually impede your progress towards your investment goals.

The good news is that you can gain some control over your psychological responses—unlike the financial markets, which we cannot control. Following are a few psychological pitfalls of investing—and how you can avoid them.

### Obsession

Do you follow the performance of your investments minute-by-minute on TV or the Internet? Do you dwell on short-term changes in the market value of your investments? Do you fixate on the negative performance of a single investment, even when your overall portfolio is doing well? Take a step back and look at the big picture. Are you on track to achieving your longer-term goals? Are you comfortable with the level of investment risk in your portfolio? If not, you may have to make adjustments to stop obsessing about short-term events.

### Denial

When stock markets go down, investors can sometimes panic and sell what is still fundamentally a good investment. The flipside of this is denial—when investors continue to hold an investment that has gone bad, thinking it will eventually come back. It can be hard, but when an investment has fundamentally deteriorated, it may be time to sell. Having an investment discipline in place with specific, rational criteria for buying and selling can help you overcome this tendency.

### Greed

The desire to “get rich quick” compels many investors to take bigger risks than they should, such as investing too much in a single investment. When the risk doesn’t pay off, it can jeopardize their financial security. That doesn’t mean you should never take a risk—it’s a normal part of investing. The key is to take well-calculated risks within a properly diversified investment portfolio, which is designed with your personal risk tolerance in mind. That way, when the occasional risk doesn’t pay off, the impact is mitigated by the other investments in your portfolio.

### Herd instinct

When we see other people doing something, we have a natural tendency to think that it must be a good thing and we should do it too. This “herd instinct” is often behind sharp ups and downs in the financial markets. When other people are buying, propelling the market upwards, we buy too, sending the market even higher. Similarly, when other people sell in a panic, sending the market downwards, we sell too, fueling the decline. Unfortunately, this often results in buying at the height of the market euphoria, or selling close to the depths of the panic. Instead of following the herd, follow a disciplined investment strategy based on logic and reason.

*Successful investing over the long term is less about how the markets are doing, and more about how we react to what the markets are doing.*

## CANADA VS. THE WORLD



We love Canada. It's a great place to live, travel, have a career and raise a family. Because we love our country so much, I have found many individuals prefer to invest primarily in Canada. They believe that investing abroad will expose them to additional market, economic or political risk. This investment preference is called 'home country bias', and it occurs not only in Canada, but around the world.

Let's clear up some misconceptions about global investing:

### MYTH

There is no need to invest outside of Canada when you can achieve a well-diversified portfolio from Canadian investments.

### FACT

Canada's heavy concentration in just a few sectors can limit your ability to properly diversify your portfolio. Over 75% of the Canadian stock market is focused on energy, financials and materials which can limit your ability to build a well-diversified portfolio. There is very little exposure to growth sectors such as technology and health care in Canada.

### MYTH

Canadian companies are just as strong as their global counterparts.

### FACT

While there are many Canadian companies that are strong, there are thousands of global leaders that reside outside our country. Of the world's top 500 companies ranked by revenue, 487 of them (97.4%) are located outside of Canada.

### MYTH

Investing outside Canada is riskier than investing within our borders.

### FACT

A diversified portfolio with a heavier weighting in global investments can help to reduce a portfolio's risk over the long term. Your investments are spread across various geographic regions and sectors that do not always move in tandem.

### *Why Invest Globally?*

*Lower risk, greater diversification, potential for higher returns*

## GIC RATES

Did you know...every morning we survey 30 different banks, trust companies and credit unions across Canada to find the best GIC rates for you? It's our complimentary 'rate shopping service' so you don't have to spend your time in search of the best offer.



GIC Rates as of March 3, 2014

1 Year 1.55%

2 Year 1.75%

3 Year 2.05%

4 Year 2.30%

5 Year 2.60%

Rates are subject to change daily

## RBC PARTNER PROFILE

### CHRISTINE KNOX, RBC PRIVATE BANKER

RBC Private Banking is an exclusive, personal service created to provide comprehensive financial solutions for high-net-worth individuals and families. Christine works with a relatively small client base and collaborates with clients' legal, tax and insurance advisors to develop strategies for financial success. This can include complex credit solutions, business succession planning, estate planning and international trust structures.

Christine can answer any questions you may have with regards to RBC Private Banking. She can be reached at 250-356-3896 or e-mail at christine.knox@rbc.com.



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## POWERS OF ATTORNEY AND REPRESENTATION AGREEMENTS

There appears to be much confusion around the difference between Powers of Attorney and Representation Agreements. The following is a very brief summary of each type of document with its uses:

**GENERAL POWER OF ATTORNEY:** This is a document that can be used to appoint an attorney for general purposes or for one specific purpose, such as purchasing or selling land or dealing with one specific investment. It allows the appointed attorney to make legal and financial decisions only and cannot be used to make medical decisions. It may be granted to a single attorney, multiple attorneys (to act separately or unanimously) or a single attorney with alternates. A General Power of Attorney is only valid while you have mental capacity, and it ends upon you becoming mentally incapable.

**ENDURING POWER OF ATTORNEY:** An Enduring Power of Attorney can also be general or specific (but is usually general), and may also be granted to a single attorney, multiple attorneys or provide for alternates. The benefit of an Enduring Power of Attorney is that it continues to be valid should you subsequently lose your mental capacity. It is a useful estate planning tool as it allows you to choose a trusted person to assist you with paying your bills and making other legal and financial decisions on your behalf, should you become incapable of doing so in the future.

**REPRESENTATION AGREEMENT:** This is a document that appoints another person to make medical decisions on your behalf, if you are unable to make them yourself, but does not allow the Representative to make legal or financial decisions. A Representation Agreement can include specific medical directives, if desired, and also generally includes directions around "end of life decisions", which are commonly known as Living Will provisions.

**LIVING WILL:** This is generally a simple, one page document that does not appoint anyone to do anything, but states that you would not wish extraordinary or heroic measures to be taken on your behalf in certain situations. It has limited effect in British Columbia, but is generally used to assist your family members or loved ones to make "end of life decisions", by making your wishes known to them.

### Information presented by

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