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Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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Dear Clients and Friends,

It was another beautiful summer in Victoria with plenty of local events and festivals to take part in. I have enjoyed hosting many clients at my ladies' golf night at Highland Pacific over the last few months – plenty of fun as we enjoyed an evening of golf!

The month of August has brought a renewed sense of volatility to financial markets with significant swings on a daily basis. After a short-term truce, the U.S.-China trade dispute has flared up again with more rounds of trade restrictions and some heated rhetoric, impacting financial markets worldwide. While the inverted yield curve is currently a recession risk, our other major U.S. recession indicators have yet to flash red or even yellow. As long as trade tensions do not heat up to the degree that a global or U.S. recession becomes a credible threat, we think the equity market can work through this volatile period. RBC's view is that the latest trade barriers do not warrant making large adjustments to investment portfolios because the U.S. and global economies do not seem in danger of an imminent recession.

Risk can take on many different looks when it comes to investing. With market risk, we are concerned with loss (either realized or unrealized) in the value of our portfolios. It does not feel good to see your account value lower today than it was yesterday, and the invention of on-line banking means that we can see those changes each and every day. The best way to reduce risk is through diversification. This can be achieved by having different types of investments that do not always move in the same direction. With interest rates dropping, we have seen the value of bonds increase based on the inverse relationship between interest rates and the price of bonds. The strategy to include fixed income investments to offset stock market volatility has worked to cushion some of the short-term losses in equities with gains in fixed income.

We are currently feeling the "uncomfortable" part of an investment strategy which is normal and expected when you are holding investments that can change in value every day. Sometimes clients want to "do something" to feel like they have control of the situation. In most cases, I would not suggest making any knee-jerk reactions to a long-term strategy based on day-to-day market changes. We will not participate in panic selling when markets are volatile. However, we will most likely take a more conservative approach to slightly lower our equity position and increase our fixed income position in the short-term without abandoning the long-term strategy.

There are many things happening around the world that we cannot predict or control. What we can control is our reaction to the news of the day as there will always be headline risk. It is my job as Investment Advisor and Financial Planner to educate clients by providing information and advice for them to make decisions that are right for their individual situation.

Wishing you a healthy and happy fall season,

Sandra

10 Principles of Successful Investing in Volatile Markets

Stock market volatility is a normal part of investing. But what you do – and don't do – during times of higher volatility can make the difference between success and failure as an investor. The following 10 principles can help you manage volatility and achieve your long-term investment goals.

1. Stay calm and invest on

When the markets are particularly volatile, there's a natural tendency for investors to move into safer investments, hoping to avoid further losses, and wait until the markets recover. But unfortunately it's nearly impossible to predict when the markets will recover. As a result, investors may miss out on the eventual recovery, which can negatively affect their long-term investment goals. As the chart (below) shows, the investor who stays invested tends to do better than the investor who bails out and misses even some of the recovery.

2. Avoid market timing

On a related note, some investors try to improve their returns by attempting to "time" the market – selling right before the markets go down, then buying right before they go up again. In theory, this sounds great. But in practice, it rarely works, simply because it's so difficult to predict when the markets will go up or down. Unfortunately, that doesn't stop investors from trying, which is why the "average investor" tends to underperform virtually every asset class.

3. Maintain your sense of perspective

Unquestionably, stock market downturns can be painful, especially when you're in the middle of one. It's not always easy, but it's important to remember that downturns have happened before – and will happen again – and that historically, as the table above shows, the markets have always recovered and reached new highs.

4. Reassess your comfort level with risk

It's one thing to say you are comfortable with a higher level of risk when the markets are only going up, and another thing when the markets are volatile. If you are finding it difficult to sleep at night because of market volatility, then it might be time to consider how much risk you are truly comfortable taking with your investments.

5. Stay diversified

Diversifying your investments is a proven way to reduce market volatility. It involves including a certain mix of stocks, bonds and cash in your investment portfolio, as well as investments representing different industry sectors or geographic areas. At any given time, one type of investment may do better than another. So by diversifying between them, you can offset weaker performers with stronger performers, reducing volatility. What's more, it can be difficult to determine exactly when one type of investment will do better than another, which is why it makes sense to stay diversified.

6. Look for opportunities

"Summer sale! Prices slashed!" When it's a retail store saying those words, it's usually a good thing. Yet when it's the stock markets, people often have the opposite reaction. When prices drop, they sell instead of buy. But when the stock markets go down, it can be fairly indiscriminate: both good and bad stocks can be caught up in the sell-off. What that means is, during a market downturn, there can be some high-quality stocks, likely to be among the first to bounce back, available at temporarily reduced prices.

7. Regularly rebalance

How you diversify your portfolio between different investments plays an important role in how much volatility you can expect. In general, if you include more stocks in your portfolio, you will experience greater volatility, but also greater long-term growth potential. Conversely, if you include more bonds, you will experience lower volatility, but also lower growth potential. Everyone has an ideal balance, based on factors such as:

- How long you have to invest
- How much growth you need
- How much risk you are willing to take

But over time, market fluctuations can cause the balance to shift in your portfolio, as one asset class outperforms another and eventually represents a greater percentage of your portfolio than you had originally intended. As a result, it makes sense to regularly rebalance your portfolio, to get back to your ideal balance.

8. Stay focused on the long term

Markets may go down in the short term, often in response to a global economic crisis, but over the longer term they tend to go up.

9. Put time on your side

In the short term, volatility can seem like the "Salt & Pepper" ride at your local amusement park. But over time, volatility smooths out. And the longer you have to invest, the more it tends to smooth out.

10. Review your portfolio

Have questions about your investments? Should you make any changes given the recent market volatility? We would be happy to help you review your investments to ensure your portfolio is right for you.

Why it's best to stay invested

Based on the annualized returns of the S&P/TSX Composite Index for 10 years, ending December 31, 2018.
Source: Bloomberg, RBC Global Asset Management.

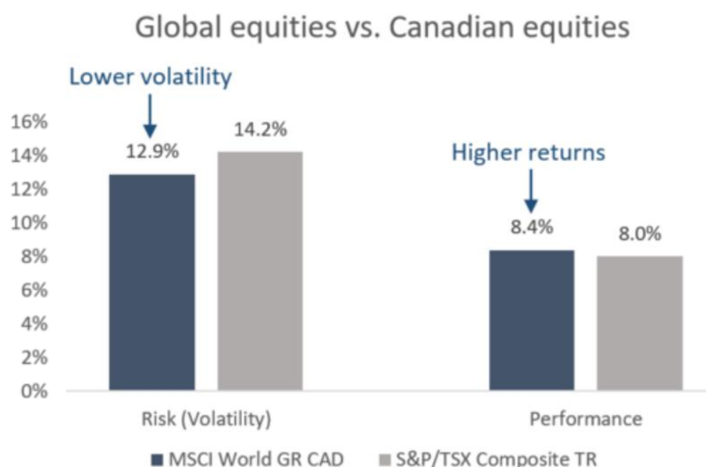
Market recoveries following major downturns (S&P/TSX)

Year (event)	Return	Return in the following year	Average return over next 5 years
1974 (oil embargo)	-25.0%	+18.5%	+22.3%
1981 (double-digit inflation)	-10.2%	+5.5%	+13.7%
1990 (Gulf war)	-14.8%	+12.9%	+10.8%
2002 ("Tech Wreck")	-12.4%	+26.7%	+18.3%
2008 ("Subprime crisis")	-35.03%	+30.7%	+8.7%

Source: Based on the returns of the S&P/TSX Composite Total Return Index.

Why Invest Globally?

Lower volatility and higher return potential



Source: RBC GAM, Morningstar, as of April 1, 1986 to April 30, 2019. An investment cannot be made directly to an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower.

Investing globally, meaning investing in financial markets outside of Canada, can increase the return potential of your portfolio while reducing volatility. That's because global exposure can reduce country-specific risk and allow portfolios to harness the economic growth and innovation that's happening in other parts of the world.

As shown in the chart, since 1986, global equities have been almost 10% less volatile on a relative basis, while delivering 0.4% higher annualized returns. The extra returns may seem modest, but like lower fees, that difference can add up significantly over time.

Lowering risk in a portfolio is often associated with lowering return expectations. However, the opportunity for lower volatility and higher returns provided by going global is an important discussion to have.

Use of Corporate Executor: Royal Trust

The value of appointing a corporate executor

One of the most important financial planning decisions you will ever make is choosing an executor. 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 undertaking to settle an estate according to the deceased's wishes – one that can seem overwhelming.

It can take about 18 months to settle even a simple estate, and the executor must complete as many as 70 different tasks and duties. These include finding and, if necessary, probating the Will, protecting and distributing assets, and paying outstanding debts and taxes. You will also have to prepare a final accounting for the beneficiaries of the estate.

Many people choose a family member or friend of their own age. When the time comes to act, the executor may not be up to the task due to age or health. Sometimes the executor may have predeceased the individual.

Alternatively, you can engage RBC Royal Trust as corporate executor. It is a choice increasingly being made by people who want to make settling their estate as worry-free as possible. Our Royal Trust professionals are skilled in the intricacies of estate administration from both an emotional and technical knowledge perspective. They are sensitive to the complexities of your unique family dynamics and approach each situation with compassion and professionalism to make the estate settlement process as easy on you as possible.

When our corporate executor services may be right for you

- You want to ease the burden on your friends and family
- You prefer that a professional handles everything
- You have no family or friends to act as executor
- You anticipate a challenging family situation

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