RBC Dominion Securities Inc.

Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

Sandra Sparanese, FCSI, CFP, CIM
Senior Portfolio Manager &
Financial Planner
sandra.sparanese@rbc.com
250-356-4859

Heather Murdock, CFP
Associate Advisor & Financial Planner
250-356-3970
heather.murdock@rbc.com

Mary Howley
Senior Associate
250-356-4946
mary.howley@rbc.com

5th Floor, 730 View Street
Victoria, BC V8W 3Y7
www.sandrasparanese.com

Dear Clients and Friends,

As summer starts to draw to a close, I continue to be grateful to live in the beautiful city of Victoria. After a wet spring, we have had amazing weather this summer and our city has hosted many visitors who are impressed with our little piece of paradise here on Vancouver Island.

This year continues to be a challenging one for investors. Financial markets have experienced a significant pullback with many asset classes (both stocks and bonds) posting double-digit losses so far this year. The main issue facing stock markets these days is the action of central banks around the world which are attempting to lower inflation by increasing interest rates. I remind clients that it is like trying to have your foot on the brake and the gas at the same time and still keep moving forward. The good news is that central banks have been much more vigilant with taking correction action than they were in the early 80s when inflation was showing double-digit numbers. RBC analysts feel that the inflation rate in the U.S. and Canada should start to come down over the next 12 months. We have already seen some encouraging signs that information is peaking as the prices of soybeans, wheat, and corn are all down between 30% and 40% from their peaks. The same is true for most industrial metals as well as for shipping costs and container prices. Gasoline prices have also fallen for seven straight weeks in the U.S.

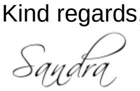
While this has certainly been a painful period for investors and we do not want to minimize the impact that it has had, the silver lining is that it has corrected some of the valuation excesses in the market and improved our long-term return expectations going forward. The month of July saw a nice rebound in both stock and bond values from the lows of June. Higher interest rates have resulted in GIC rates now over 4.0%, which we have not seen in many years. We expect interest rates may start to move back down in 2023 once we see that inflation is under control.

Our outlook for the balance of 2022 is still a bit cloudy in the short-term. With recession risks rising, we are still expecting market volatility in the next few months. I have reminded clients that a recession is not catastrophic, but rather a normal part of an economic cycle. A considerable amount of the recession risk has already been priced into equity markets. The US mid-term elections are this fall and historically we see a market rally after the election has been settled. The S&P 500 Index has historically outperformed the market in the 12-month period after a midterm election, with an average return of 16.3%.

The key strategy when events like this happen is to remain calm and continue to hold good quality investments that fit with your personal risk tolerance and time horizon to draw income. Market downturns are always followed by gains and patience is required to participate in the future recovery. Being aware of how your emotions can impact your investment decisions during volatile periods can help you to avoid making poorly timed changes to your portfolio. It's what you do – or rather what you don't do - during these volatile times that can make all the difference.

As always, I am happy to answer any questions that you may have.

Kind regards,



10 basic truths about investing

By Sarah Riopelle, Vice-President and Senior Portfolio Manager, RBC Global Asset Management

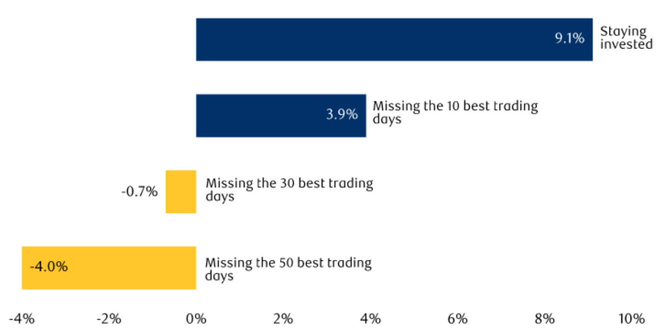
1. Diversification is still your most important investment strategy.

If recent history has shown us anything, it's that diversification remains one of the best ways to manage volatility in your portfolio. Different asset classes and markets go up and down at different times, so combining them into a well-diversified portfolio will smooth out investment returns over time. This can help you manage through volatile markets like the one we have experienced so far in 2022. It will also help you stick to your long-term investment plan.

2. It's time in the market that matters, not timing the market.

One thing I have learned is that it is extremely difficult to successfully time the market. It involves making two decisions – when to get out and when to get back in. Even if you manage to find the right time to get out of the market, it's highly unlikely that you'll be able to get back in at the right time. As difficult as the market drawdown was in March 2020, sitting on the sidelines meant you likely missed out on some pretty impressive gains that followed shortly after the low. Missing even a few of the strongest days in the market can have a significant impact on your overall investment returns.

Missing just the 10 best days in the market over the past 10 years would have reduced your returns:



Based on the annualized returns of the S&P/TSX Composite Index for 10 years, ending December 31, 2021. Source: Bloomberg, Morningstar, RBC Global Asset Management.

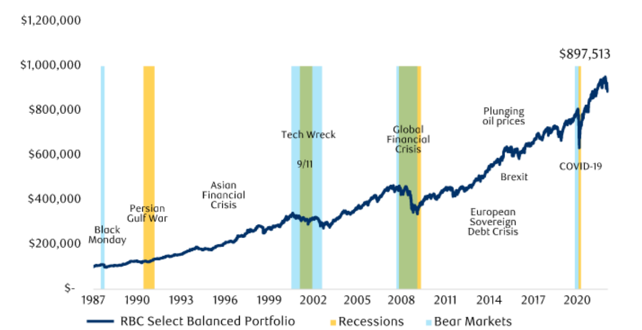
3. Someone's portfolio will always be doing better than yours (or at least they will say it is!).

People will always tell stories of a hot stock or investment tip that made them money. Meme stocks, bitcoin and NFTs all come to mind. But no discussion of investment returns or performance is meaningful without also considering the level of risk involved. To earn higher returns, you need to accept more risk or volatility. So those who are bragging about their investing success could have a very different risk tolerance or time horizon than you, or they may simply be exaggerating their results. Either way, you should not take this as an indication that your investment portfolio is inferior or that you are missing out on something.

4. Markets go through up and down cycles, but they have trended higher over the long term.

Markets do not simply go up in a straight line. They experience many ups and downs, driven by a host of different factors. Some of these are fairly small and are resolved quickly; others are larger and can take longer for markets to digest. What is important to remember is that downturns have happened before, and will happen again, but they are not a reason to panic. In the past, markets have always recovered and trended higher over the long term.

Markets have always trended higher over time
RBC Select Balanced Portfolio – growth of 100K:



Source: RBC GAM, Bloomberg. Returns are reflective of Series A performance since January 1, 1987 to February 28, 2022, 1 year = 3.5%, 3 year = 7.4%, 5 year = 6.0%, 10 year = 7.0%. Inception date: Dec 31, 1986. Bear markets starts from when the index closes at least 20% down from its previous high. Recession start when there is two consecutive quarters of declining GDP.

5. Markets are unpredictable, so focus on what you can control.

Market downturns can be painful, especially when they follow a period of strong gains and relatively low volatility like we saw in 2021. But you have no influence over what the market is doing, so in periods like these it's important to focus on what you can control. This includes keeping your emotions in check, staying invested and focusing on your financial goals. Over the long term, investing success has less to do with the ups and downs of markets and more to do with how you react to that volatility.

What you can't control	What you can control
The stock market	Your financial goals
Inflation	Your risk tolerance
Geopolitical events	Your time horizon
Interest rates	How much you invest/save
What people say on twitter	Your emotions (sometimes)

Source: Sarah Riopelle "Revisiting the 10 basic truths about investing" © RBC Global Asset Management Inc. 2022 Publication date: April 21, 2022
https://www.rbcgam.com/en/ca/learn-plan/investment-basics/revisiting-the-ten-basic-truths-about-investing

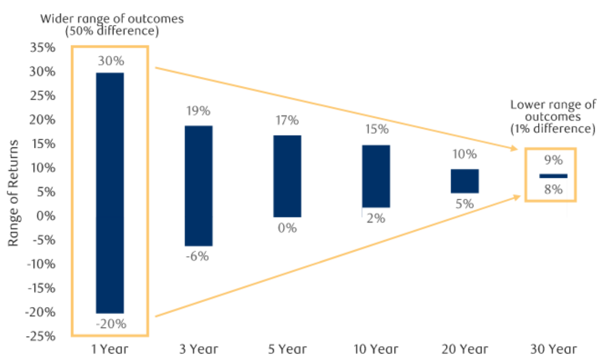
6. What matters isn't what the market does, but what you do in response.

This one is an extension of #5, but it's worth reinforcing. Being aware of how your emotions can impact your investment decisions during volatile periods can help you avoid making poorly timed changes to your portfolio (see #2). This is easier said than done, even for professional investors. Ignoring the short-term noise in markets is key. So is sticking to the solid financial plan that you put together with your advisor. It's what you do – or rather what you don't do - during these volatile times that can make all the difference.

7. Volatility decreases the longer you're invested.

All investments carry some degree of risk. If you want to earn a higher return on your investment, you have to be willing to accept more risk or volatility. If your tolerance for risk is low, then you will have to give up some return to achieve that. Understanding this relationship is a fundamental part of investing. That said, the volatility that comes from taking on more risk in your portfolio tends to decrease over time…especially if you are invested in a well-diversified portfolio (see #1).

Historical odds of earning a positive return increases over time

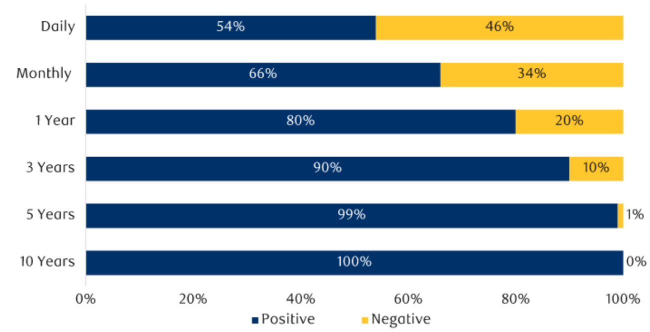


Source: Morningstar, RBC GAM. RBC Select Balanced Portfolio, Series A. Daily returns are based on time period of January 01, 2000 to March 31, 2022. All other periods are based on monthly data from January 01, 1987 to March 31, 2022. RBC Select Balanced Portfolio, Series A performance as of March 31, 2022 1Yr: 2.4%, 3Yr: 6.5%, 5Yr: 5.7%, 10Yr: 6.9%. Inception date: Dec 31, 1986. Past performance is not a guarantee of future results.

8. The more frequently you check your portfolio, the more volatile it will feel.

It has never been easier to get up-to-date information on the status of your portfolio. But you must also remember that the more often you check it, the more volatile it will feel. That is because on a day-to-day basis, there is a 50-50 chance that it will have a positive or negative return. So watching your portfolio every day can lead you to think your investments are riskier than they really are. Instead, stay focused on your long-term investing goals and review your portfolio less frequently. This approach can help as the likelihood of seeing a positive return increases over time. It reminds me of an old TV ad: "Just set it, and forget it"!

The volatility of a diversified portfolio decreases over time



Rolling 1-, 3-, 5-, 10-, 20- and 30-year average annual returns from January 1988 to December 2021. All returns are total returns in Canadian dollars, unless otherwise noted. Diversified Portfolio represented by 2% Cash, 38% Fixed Income, 15% Canadian Equities, 25% U.S. Equities, 15% International Equities and 5% Emerging Markets Equities. Cash represented by FTSE Canada 30 Day TBill Index; Fixed Income represented by FTSE Canada Universe Bond Index; Canadian Equities represented by S&P/TSX Composite Index; U.S. Equities represented by S&P 500 Index; International Equities represented by MSCI EAFE Index; Emerging Markets represented by MSCI Emerging Markets Index. Source: Bloomberg, RBC Global Asset Management.

9. Risk doesn't look like risk when it's earning a return - manage risk, don't avoid it.

It's easy to say that you are comfortable with a higher level of risk when the markets are going up. But some people quickly abandon that sentiment when markets are volatile. That's because the fear of loss can far outweigh the anticipation of gains. Markets are unpredictable, we can't change that fact. But you can manage the risk by diversifying your portfolio (see #1 again) and by focusing on what you can control (see #5).

10. Headlines often focus on the sensational, short term and negative - none of which should matter to investors.

There are always a variety of economic, financial or political events that can give you a reason to not invest. This year is no different. But headlines are designed to grab your attention and shouldn't be cause for alarm or a reason to make sudden changes to your portfolio. Looking beyond the headlines and keeping the previous nine points in mind can provide you with a solid foundation for navigating markets in good times and in bad. In the end, staying on track and achieving your financial goals should be the only thing that matters.

Estate Planning

The Wills Variation Legislation and how it can affect your Estate Planning

A general principle of law is that a person who makes a Will has the freedom to dispose of his or her property as he or she wishes. However, like most general principles, there are exceptions.

The Wills Variation provisions of the Wills, Estates and Succession Act, permit a surviving spouse (including a common law spouse), or a natural or adopted child of the deceased to contest a Will on the basis that the Will did not make adequate provision for him or her. The Wills Variation provisions have sparked a great deal of controversy for those that believe that a parent's obligation ends once they have raised a child to independence. While initially the former, Wills Variation Act, was used primarily by disinherited children, it arises more commonly now as a result of the increase in "blended families".

To illustrate how a blended family can be influenced by the Wills Variation provisions, here is an example:

John and Joan are married, and both have adult children from previous relationships. All of their children are grown and independent, and John and Joan's primary estate planning goal is to ensure that they provide for each other, in the event of the death of just one of them. They wish to enter into simple reciprocal Wills which gift all of their estate to the surviving spouse, and upon the death of the surviving spouse, the estate is to be divided equally among the children of both of them.

Unfortunately, because of the principle of testamentary freedom, the surviving spouse is always free to change his or her Will at any time. Accordingly, if John dies first, Joan could change her Will at any time following his death cutting John's children out entirely. John's children may not be aware that this has been done until after Joan's death, but at that point, they would not have a right to bring a Wills Variation action, because they are not the natural or adopted children of Joan.

Since the limitation to bring such an action is six months from the date of probate, the time may have long since expired to bring an action to vary their father's Will, and thus, the end result is that John's children end up with nothing. John's children may be forced to bring a Wills Variation action when John dies, attempting to reapportion John's assets away from Joan and to John's children at that time. This could possibly leave Joan without sufficient funds for the balance of her lifetime, and John's estate planning goal will have failed.

This is just one example that illustrates the need for some professional estate planning advice, in the event that you wish to disinherit a child, treat your children unequally under your Will, or in the event you have a blended family.

There are planning options available to give greater certainty to the desired estate plan, but the available options are dependent on individual circumstances and assets, and should be discussed with a lawyer at an estate planning appointment.

Information provided by:

Mary Murrell | Lawyer
Randall & Murrell | Lawyers
201 – 1006 Fort Street,
Victoria, BC V8V 3K4
T: 250-382-9282 | F: 250-382-0366
W: www.viclawfirm.ca |
E: mmurrell@viclawfirm.ca

Wealth Management
Dominion Securities