Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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Dear Clients and Friends,

It has been another beautiful summer in Victoria and I always feel very fortunate to live in this paradise.

It has also been a busy summer in the financial markets. We saw increased volatility in early August as investor anxiety about U.S. growth combined with downbeat earnings weighed on U.S. technology stocks. A surprisingly weak U.S. jobs report also added to growing concerns that the American economy is slowing fast and had market observers questioning whether the U.S. Federal Reserve has made a policy mistake by resisting rate cuts so far during this economic cycle. Japan surprised with an interest rate hike which also triggered significant selling pressure in stocks. There was plenty of stock market action on a daily basis and we expect that to continue over the next three months.

The Bank of Canada has now made two consecutive rate cuts with better inflation data, but the U.S. Federal Reserve remains on the sidelines for now. Analysts are now suggesting that September will be the first interest rate cut in the U.S. and we can expect perhaps two more before the end of 2025. Lower interest rates are good for the economy, the stock market and the bond market.

On the U.S. election front, former President Donald Trump survived an assassination attempt, while President Joe Biden made the tough decision to drop out of the presidential race amid growing public concerns towards his health and pressure from his donors. Vice President Kamala Harris is now the Democratic nominee with just two more months to prepare for the election. Harris is seeing some gains in the polls and is now enjoying something of a popularity bump. Whether that bump lasts and how the public will like Harris as they get to know her better is unclear. Historically in a U.S. election year, stock markets show increased volatility in August through October, and then once the election is settled in early November (regardless of the outcome), the U.S. stock market has had a nice rally into year-end. Of course, there are no guarantees that this will be repeated in the 2024 election year, but history has shown that is the most probable scenario to expect. The message from our RBC Portfolio Advisory Group is to not make any drastic changes to investment portfolios based on short-term election hype.

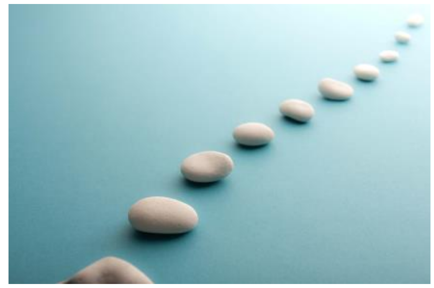
My role as Portfolio Manager and Financial Planner includes being a “risk manager” with regards to investment strategies and I will continue to have a conservative stance that includes diversifying investments and never having all of your eggs in one basket. We are looking for investments that have a “negative correlation” and we are now starting to see the benefit of having bonds in a portfolio to offset some of the recent stock market volatility. The price of bonds should continue to move higher as interest rates decline over the next year. It is important that we continue to focus on the variables that are within our control and continue to be long term investors for our future financial success.

As always, I welcome any questions or comments.

Sandra

Stay calm and invest on

In stormy markets, keeping a sense of perspective can help you stay on track to reaching your long-term goals, like retirement or a legacy for your family's future.



When the markets are particularly only 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. The investor who stays invested tends to do better than the investor who bails out and misses even some of the recovery.

Avoid market timing

Some investors try to improve their returns 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.

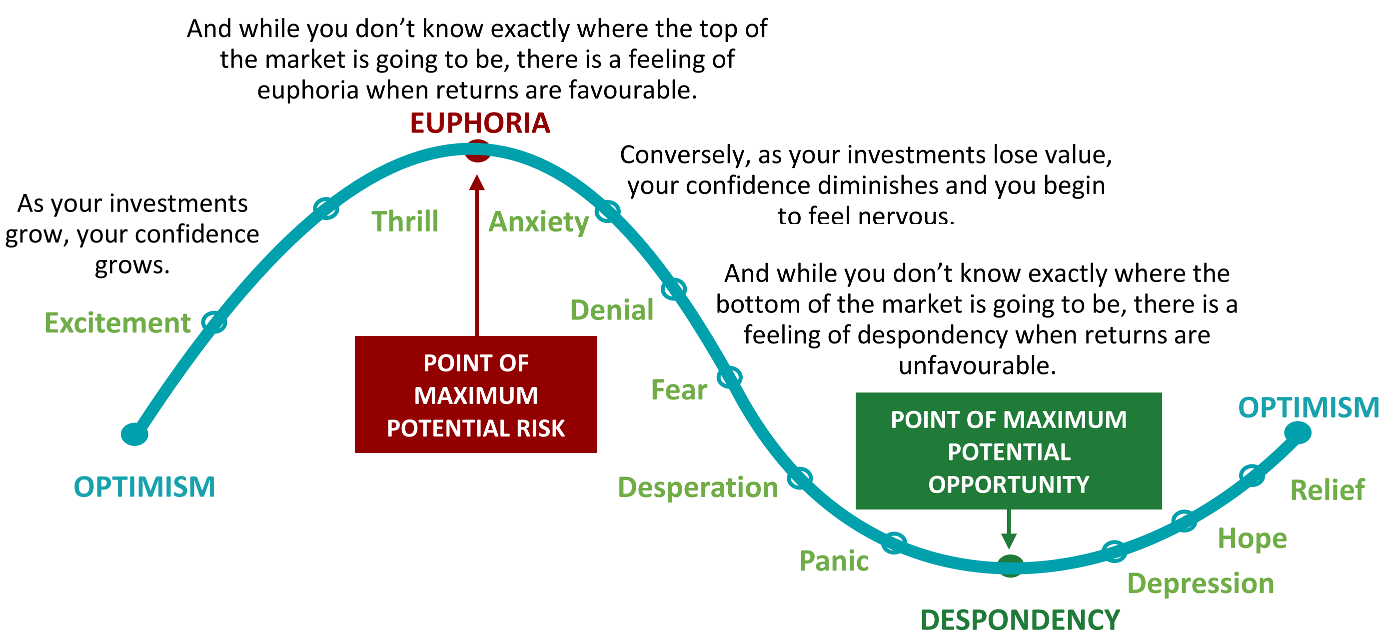
Maintain your sense of perspective

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. Historically, the markets have always recovered and reached new highs.

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.

The market will **TEST** your **RESOLVE!**



What Happens to Stock and Bond Prices When Rates Fall?

Falling interest rates

When interest rates come down, the question that's on many investors' minds is: how could it impact my portfolio? Markets twist and turn for all sorts of reasons, whether driven by economic factors like employment figures, or supply chain problems, but an interest rate move in either direction almost always has some implications for stocks and bonds. And in the case of falling rates, stock and bond prices have often, but not always, moved up. Not every investment will react to a change in rates in the same way or at the same pace. It's impossible to predict how individual stocks will respond, but knowing the way in which the market reacts to lower rates is important when considering your investment strategy.

Interest rate impact

Interest rates affect markets because they impact the relative attractiveness of one asset class compared to another. After the Great Recession in 2008 and until 2022, interest rates were at historically low levels – near zero in many cases. That made stocks a lot more appealing than bonds because you could, in theory, earn more in the stock market through earnings growth and dividends than you could from the yield a bond would pay, which is more directly tied to interest rates. Stocks did well over that period but that began to change a couple of years ago when interest rates started to rise. Bonds became more attractive to investors – if one can earn 4% in a fairly risk-free investment, such as a government fixed-income security or a high-interest savings account, many investors will choose securities that provide safety.

But where do things go from here? We look at how stocks and bonds may react to declining rates.

Bonds could bounce

When interest rates fall, bond prices tend to increase, and vice versa. That's because the government bond you bought with the 5% yield becomes more attractive when you can now only buy a government bond with a 4% yield. People will pay a little more to get that extra income. In 2022, existing bonds had their worst year on record because of increasing rates – you had to sell your fixed-income securities for less money because investors could get new ones with higher yields. You don't always need to wait for a rate cut to see bond prices rise, though. Yields on longer-dated bonds, like a 10-year or 30-year bond, fluctuate constantly, moving in part on where people think rates may go in the future, as well as the outlook for the economy. If investors estimate rates could fall in, say, three months from now, you might see yields come down, increasing the price of your bond. Shorter-term bonds – ones that mature in one or two years – react more strongly to a central bank rate cut because they signal where rates are at today or will be in the very near future. Another attribute of bonds is that prices could still climb even if there is a more extreme slowdown as bonds are much less sensitive to lower growth than equities.

More attractive stocks

Equities movements are less predictable. Stock prices often rise when rates fall because bonds offer lower yields and investors must take on more risk (i.e. equities) to achieve their desired rate of return. Often, less volatile dividend-paying sectors, such as utilities or real estate investment trusts, see a boost because they're considered bond proxies – their earnings are stable, and they pay a decent yield that's in line with, or more attractive than, fixed income. (Of course, they're still equities, so they do carry more risk than bonds.) Other factors can support equity prices, too. When rates fall, borrowing costs drop, whether it's your variable-rate mortgage or the line of credit a business taps into to run its operations. If you can pay down debt faster, then you have more money to spend or invest. Those dollars will find their way into company coffers, increasing earnings and, ultimately, stock prices. Similarly, if companies have more money and access to lower-cost borrowing, they can spend on expanding. For sectors like tech, where investors put a high value on growth, that can help buoy prices. But just because stocks are supposed to rise when rates fall, doesn't mean they will. Equity markets move for all sorts of reasons, not just because of changes in interest rates.

While it's a good idea to think about how rates could impact your investments going forward, other criteria such as your goals, time horizon and risk appetite are also important considerations when determining how best to position your portfolio.

Seven tips for choosing your executor

The person you name as your executor has a very important responsibility – settling your estate according to your wishes. By naming someone as your executor, you may believe you are honouring them. However, you are also giving them numerous duties – not to mention a potential personal liability. That's why it's important to carefully consider who you choose as your executor.

In their Will, people often name the person closest to them to be their executor – they trust them to understand their wishes and to handle their beneficiaries appropriately. But the best person for the job may not be the obvious choice. Here are seven things to consider when choosing your executor:

1. Can they handle family dynamics?
Often, there is family conflict when an estate is being settled. This is especially true when you're transferring wealth from one generation to the next, or if you have children from multiple marriages. What's more, it can be an emotionally charged time – people are often not thinking straight, which can lead to misunderstandings.

When deciding on an executor, look for someone who is fair, diplomatic and able to manage complex family dynamics. Your executor may need to explain why you made certain decisions in your Will, and gently encourage family members to respect your wishes. If there's a dispute, they may also need to act as a mediator.

2. Are they savvy about financial issues?
Being an executor is a bit like being a financial advisor, accountant and lawyer – all rolled into one. Your executor doesn't necessarily need to be an expert in all these areas, but should be knowledgeable enough to deal with them, and know how to access experts when required. Consider naming an executor who is detail-oriented, has their finances in order, and has experience dealing with tax and legal matters.

3. Are they located near you?
It may be difficult for an out-of-town executor to travel back and forth, especially if they have career or family commitments. In addition, they may not be familiar with tax and legal issues in your province. As a result, it's usually a good idea to choose an executor who lives nearby.

4. Do they have the time?
Fulfilling the many responsibilities of an executor takes time. Among their many duties:

- Reviewing and probating the Will
- Making final arrangements
- Taking an inventory of the estate property
- Protecting valuables
- Managing investments
- Paying bills, debts and taxes
- Dealing with beneficiaries
- Working with tax and legal professionals

Simply put, all this can be very difficult for busy people – even if they are financially capable – so it makes sense to choose an executor who can make the time commitment.

5. Are they in good enough health?
Often, people name their spouse or close friend to be their executor. However, age and health can be a concern. Generally, it's a good idea to name someone who is younger than you, and likely to be in good health when the time comes to settle your estate.

6. Are they actually willing to do it?
Sometimes people name executors without even asking them, assuming they will feel honoured. That may be true, but it's also possible that they'd rather not take on the responsibility. Of course, they may be reluctant to say that, not wanting to hurt your feelings. Give them the opportunity to decline, guilt-free: "Are you sure you're OK with this? There are a lot of duties – I can choose someone else."

7. Do they need professional assistance?
When the time comes, many executors are surprised to learn how many duties they have as an executor, and that there are financial consequences – and potential personal liability – if they fail to carry them out properly. At this point, they often decide they need professional assistance from a corporate executor who has the expertise to settle an estate, and can act as a neutral third party with beneficiaries. You can also name a corporate executor in advance in your Will, to either support a friend or family member as their co-executor, or to act as sole executor.

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