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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,

2017 has started off to be very positive for investors after the "Trump Bump" of late 2016. Markets have discounted a rosy outlook based on expected U.S. policy moves including lower taxes, reduced regulations and increased infrastructure spending. Earnings from U.S. companies have exceeded expectations and stock values continue to move higher. The U.S. Federal Reserve has given notice of a gradual increase in interest rates as economic conditions improve.

Our RBC analysts continue to feel bullish about the outlook for the balance of 2017. It continues to be our view that recession indicators, not the occupant of the White House, are the best determinants of whether the equity market can keep advancing. While the actions of the president and Congress can strengthen or weaken economic trends, Washington's leaders are dependent on business cycle fluctuations. Currently, none of the six main indicators that RBC analysts monitor are signaling that a contraction is on the horizon.

It is always important to keep your emotions in check as an investor. Personally, I feel that when an investor decides to implement a long-term strategy, that they are really taking the "investor oath" of accepting the good and the bad in the short-term for success down the road. The good feels good right now, but we need to be accepting of knowing that there may be short-term pain at some point in the future. It could be next week, next month, or next year. An irrational or ill-timed "tweet" from President Trump could be all it takes for a short-term sell off in the markets. Long-term investors will not panic. Cash positions will be deployed into good quality investments as they go "on sale".

I have had many positive conversations with clients about investment management fees in the last three months. Transparency and a full understanding of what you are paying will ensure that you are comfortable with your costs and see value in the fees you have paid. I will continue to research and present lower cost options to clients this year. It is always important to know that lower fees do not automatically translate into higher rates of return. There are considerations with regards to active versus passive management of investments and new lower-cost portfolio models are presented with this in mind, when it is appropriate for clients. If you have any specific questions with regards to investment management fees, please contact me directly and I would be happy to answer any questions that you may have.

I am looking forward to spring and golf season. I am once again sponsoring the weekly ladies golf night at Highland Pacific which begins in mid-April. If you are interested in coming out for a fun night of non-competitive golf, just let me know and I will put you on my guest list.

Sandra

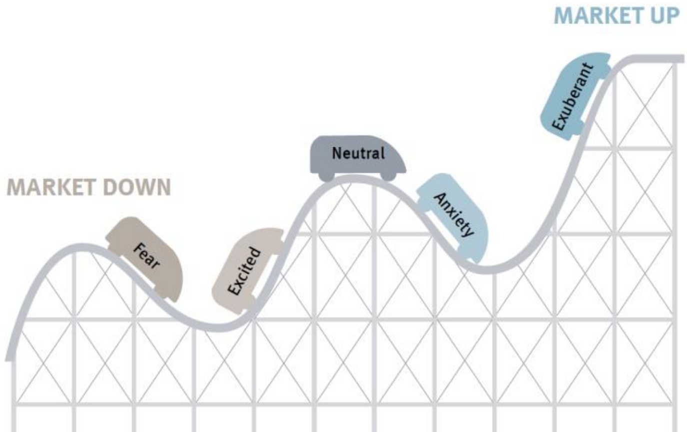
Emotional Investing

How emotions can get in the way of your long-term investment plan

Watching the value of your investments fluctuate can be an emotional experience. When markets are falling and your investments decrease in value, you may become anxious and worry about what impact it will have on your overall financial well-being. When markets are climbing, you may become excited and over-confident, willing to take on additional risk to see your assets grow further. All of these emotions are entirely understandable but reacting based on these emotions can be detrimental to you reaching your investment goals.

During periods of heightened emotions, decisions tend to be based on short-term objectives, without much consideration for their long-term implications. While it may be difficult to watch the value of your portfolio decline, it may be even more difficult to recover from a series of poorly timed decisions.

Roller-coaster of investor emotions



Controlling your emotions

Remaining calm during all market environments and staying focused is critical to reaching your goals. Here are a few suggestions:

1 Ask big picture questions

There are reasons why you began investing in the first place, which in turn helped determine how your portfolio is constructed. It may be helpful to revisit these goals when volatility picks up to see if anything has changed. Consider asking yourself questions like:

- Are my goals the same now that my investments have declined?
- Is my investment time horizon the same as it was when we built my portfolio?
- Is my financial situation the same?
- Is my portfolio aligned with my risk tolerance?
- Does my portfolio have an appropriate level of diversification?

If the answer is “yes” to these questions, then ask yourself why you need to make any changes, particularly knowing the risks involved in getting it wrong. If the only thing that has changed is the short-term value of your portfolio, should this affect your long-term plan? These bigger picture questions can help shift the focus away from the short-term discomfort. However, if the answer to any of the questions is “no,” discuss these changes with your advisor, as they will review and work with you to adjust your investment plan.

2 Tune out the headlines

A major source of uncertainty comes from the media, where the focus tends to be negative and sometimes alarmist. It is extremely difficult for forecasters to accurately predict where markets will go in the short term and no forecaster has insight into your unique situation. Watching the news and reading headlines will only serve to heighten your anxiety during difficult times and increase the chance that you'll react emotionally.

3 Stop constantly checking your investments

Are you guilty of obsessively checking your portfolio on a daily basis? One way to reduce the emotional impact of market volatility is by simply looking at it less often. The market tends to be more volatile over shorter time periods, so the more often you check, the greater the likelihood you'll see wider fluctuations in the value of your portfolio. Checking your portfolio monthly or quarterly means you're more likely to see trends over the long term.

4 Speak with an advisor

Many advisors have been through multiple market cycles and have seen difficult periods before. Having an objective advisor who can share their expertise and experience and provide you with advice during difficult times can be extremely important in keeping your plan on track.

Thinking about taking a break?

If you are nervous about market volatility and are thinking about moving your investments to cash, it is important to understand that by doing so you will introduce several new risks to your portfolio. While moving to cash may feel safe, remaining in cash for an extended period of time ultimately erodes your purchasing power. Even at a modest inflation rate of 2%, you will lose 10% of your purchasing power over a five-year period. Inflation is a serious threat to your long-term plan, it's just less obvious because the face value of the assets don't decline.

Here are some questions to consider if you are thinking about moving to the sidelines:

- What is my plan for getting back into the markets?
- What are the tax implications of my decision?
- Where should I direct my savings in the meantime?
- How long can I afford to be out of the market while ensuring my goals are still achievable?
- When will I know it is safe to get back in?
- How can I ensure that I do not continue to pull out of the markets in the future?

Dos and don'ts for controlling emotions

- ☑ **DO** seek advice
- ☑ **DO** understand your goals, objectives, risk tolerance and time horizon
- ☑ **DO** get the facts about your investments
- ☑ **DO** stay focused on your plan

- ☒ **DON'T** panic and act before understanding the implications of your decisions
- ☒ **DON'T** get advice from the media
- ☒ **DON'T** check your investments too frequently

Keep your emotions in check

Reacting emotionally often complicates the investment process and the more you try to time the markets, the worse off you are likely to be. Investment plans shouldn't be derailed by uncertainty and periods of volatility. Make sure to sit down with an advisor on a regular basis to review your risk tolerance, time horizon and objectives to ensure your plan is appropriate and you can remain on track.

Harness the power of **Dividends**

Dividends are income distributions from a company to its shareholders. And today's healthy dividend yields are eclipsing those of money market funds and the bond market. Their advantages are numerous and they carry great potential. But how powerful is the power of dividends?

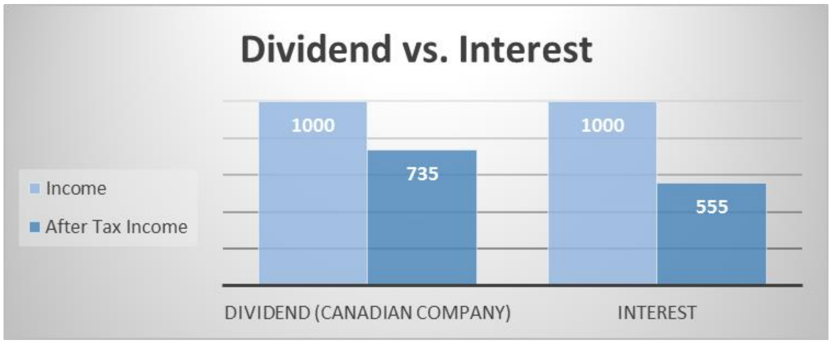
Income-focused investors often look to dividend-paying stocks – typically large-cap companies that are less volatile – as a source of stability and income and as a way to diversify their portfolios. Although companies are not obligated to pay dividends to investors, most continue to do so. Some investors see dividend payments as a signal of the company's confidence in its future earning power, particularly in tenuous markets. They also help to mitigate stock market downturns, particularly in the wake of a financial crisis.

Over the past 27 years, dividends have contributed an average of 2.7% per year to the S&P/TSX Composite Total Return Index, representing over 30% of the average annual total return (RBC Global Asset Management).

The tax advantages of dividend investing

Dividends received from Canadian corporations are effectively taxed at a lower rate than interest income, due to the dividend tax credit that is applied to the federal and provincial tax payable. This tax credit is meant to recognize that the Canadian corporation paying the dividends has already paid tax on its earnings, which are now being distributed to its investors. Dividends from foreign corporations do not receive the same dividend tax credit, and are taxed at a higher rate than those of Canadian corporations.

For example, if you earn more than $132,000 in annual taxable income, and receive $1,000 in dividend income from a Canadian company, you keep approximately $735 after federal and provincial taxes – less the dividend tax credit. By comparison, $1,000 in interest income will net about $555 after taxes – the same for $1,000 in foreign dividend income, because it is not subject to the tax credit for Canadian corporations, and is taxed at a higher rate.



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