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Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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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.rbcds.com.

Dear Clients and Friends,

The beginning of the year continues to be the busiest time in my business with TFSA contributions, RRSP contributions and income planning for 2019.

After a dismal December in the markets, volatility has changed direction and we have seen nice gains in stock markets since the lows at the end of 2018. Staying invested proved to be the best strategy, as short-term paper losses from December were recovered in the months following. Investors that remained invested during this time were rewarded for their patience.

What will the balance of 2019 look like for investors? Our RBC analysts continue to be “cautiously optimistic” for stock market performance this year. There are a number of global events that could have an impact on the world economy. These include the continued trade war between the U.S. and China, the ongoing Brexit saga, central banks willingness to continue to increase interest rates, and slowing economic growth in China. Against this backdrop, positive factors include very low unemployment in North America, strong corporate profits and little evidence of inflationary pressures. We should see positive rates of return for markets in 2019 but of course, things can always happen to change that.

Will we see a U.S. recession in 2019? There are a number of recessionary indicators that RBC is closely monitoring. Of the six indicators that are followed, none of them are currently flashing red (recessionary). The two most important recession indicators are the yield curve (the difference between short-term interest rates and long-term interest rates), and the U.S. unemployment rate, both of which continue to be in the “expansion” category, not recession. According to our RBC analysts, most of the key U.S. economic indicators suggest we are in the late stages of the current cycle. Late cycle is consistent with an expansion that has no more than a year or two left. The various recession models we collect at RBC overwhelmingly conclude that the U.S. is not in a recession today and most likely will not go into a recession in 2019. We feel that the global economy will continue expanding, while recognizing that we are likely in the later stages of the business cycle. We will continue to keep our clients updated with RBC research as economic conditions change.

I continue to remind clients to know what their own personal risk tolerance level is - your “sleep at night” factor. When markets drop, investors who feel significantly uncomfortable with the change in their values should re-evaluate their risk tolerance and perhaps consider reducing exposure to equities at a better time in the market. A long-term investor should be able to see past short-term losses and be accepting of both good and bad market conditions to achieve the long-term goal of investment success. Change is warranted if you now realize that you are not comfortable with short-term market losses.

I am looking forward to a fantastic 2019 working with great clients and RBC colleagues.

Sandra

Connected and protected

Retiring in the digital age

With the help of technology, Canadians are continually redefining the meaning of "retirement lifestyle." Not only does it enable longer and longer lifespans – and retirements – it's creating easier ways to connect with each another, entertain ourselves and even look after our health.

Conveniences like video calling your family from another city or monitoring your heart rate with a wristwatch are now commonplace. You can also expect to experience miraculous new things in the future, like wearable devices that measure blood glucose levels without piercing the skin, or smart earbuds that enable seamless, real-time conversation with someone who speaks a different language. One commonality between these technologies is another technology we routinely take for granted – the internet.

But these technologies come with a degree of risk, especially for the typical retiree. Seniors are not only the fastest-growing group of internet users in Canada, they're also the most vulnerable – and targeted – when it comes to cyber fraud. From January 2014 to December 2016 alone, Canadians age 60 to 79 lost an estimated $28 million to various scams.

Thankfully, the best ways to protect yourself and your devices have remained unchanged and simple:

When it comes to emails, err on the side of deletion

"Is this really my granddaughter Heather? Reaching out to me as her last hope for bail-out money?"

Chance are slim, but even if the email's request is not that suspicious, delete it unless you recognize the sender and the content from real life. The friend or family member you think it might be can always find another way to get in touch with you.

Choose a strong password

Old habits die hard. The worst passwords of 2017 (as reported by SplashData, the makers of SplashID password manager) were unsurprising culprits: 123456, password, 12345678, qwerty and 12345.

The best way to secure your password is to ensure it:

- is at least eight characters in length,
- uses a combination of upper and lower case letters,
- uses one number, one special character and is creative

Yes, creative! Try a phrase that's memorable to you specifically, and adjust from there (e.g., change a to @).

Secure site – or flight

Know how to recognize a truly secure site. Secure websites encrypt information before sending it between computers (e.g., from you to the company you're purchasing from). This makes the information completely unreadable for criminals, because only the computer on the other end can read it. To know the site you're using is secure, look for a padlock symbol and "https" (not simply "http") at the start of the address bar.

Install anti-virus software

A virus can do more than breach your privacy, it can cause your computer to run slowly, have trouble booting up or even face permanent damage. Worst of all, once contracted, it can spread to other machines on your network. Antivirus software is an important basic defense against threatening computer viruses.

These basic practices can help you protect your information, but they're not an exhaustive list. Learn other tips and tricks at the pages below:

Government of Canada Cyber Security

https://www.canada.ca/en/services/defence/cybersecurity.html

RBC Cyber Aware Page
https://www.rbc.com/cyber/

10 years after

Lessons learned from the financial crisis

This March is the 10th anniversary of the stock market's lowpoint during the 2008-2009 financial crisis. This earth-shaking event provides important lessons for investors looking to make the right choices in the face of today's volatile markets.

It's darkest before the dawn

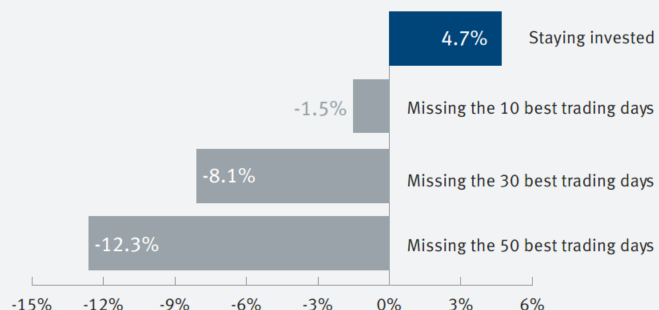
If we cast our minds back to March 2009, the financial markets were in a state of chaos. Of course, no one could have known then that, amidst the panic, the market recovery had already begun.

On March 9, 2009, the benchmark U.S. stock index, the S&P 500, hit its bottom. Since then, investors have been rewarded with one of the most stunning bull markets in history: the S&P 500 Index has advanced over 330% to the end of November 2018 – and delivered a 16%+ annual return.*

While financial crises like the one that occurred over 2008-2009 are extremely rare, there is no avoiding the fact that periodically, markets will experience short-term volatility, which can cause investors to question their investments and investment plans.

Why it's best to stay invested

Missing just the 10 best days in the market over the past 10 years would have reduced returns significantly.



Based on the annualized returns of the S&P/TSX Composite Index for 10 years, ending December 31, 2017. Source: Bloomberg, RBC Global Asset Management.

Basic lessons vs. base instincts

2018 has been a year of ups and downs, with equity markets starting and ending the year with some of the sharpest volatility we have seen since the financial crisis.

How do you manage through this turbulence? How can we control our base instinct to panic and, instead, stay on course to our goals?

- **Don't invest in something you don't understand**
  In the lead-up to the financial crisis, many investors deviated from their investment plans, chasing returns in risky assets they often did not even understand. That especially hurt them when markets sank.
- **Make a plan – and stick to it**
  A properly built investment plan – one that aligns your investment portfolio with your unique goals – will help you maintain perspective and avoid emotional decisions when volatility hits. And it will also help ensure your portfolio remains diversified, which helps manage risk and enhance return potential through the use of different asset classes, geographical markets and industries.
- **Don't try to "time" the markets**
  As the chart above shows, missing out on just some of the best days in the markets dramatically affects your returns. And even professionals can't reliably predict exactly which days will be the best. In the short term, markets are mercurial. However, over the long term, they tend to steadily climb.
- **Invest regularly**
  One way to take advantage of the long-term up-trend is by investing regularly, which allows you to ease into any type of market (rising, falling, flat) and reduces long-term portfolio volatility. Why? Investing a fixed dollar amount on a regular basis gives you a chance to buy more investment units when prices are low and fewer units when prices are high, thereby potentially reducing the average cost of your investment. Equally important is that it provides a built-in discipline, helping you avoid trying to time the market.

The return of the S&P 500 Index from March 2009 to November 2018. All returns in local currency, annualized and include reinvestment of all dividends.

Oh, CRA-p!

You lift open the mailbox only to spot that dreaded brown envelope – your Notice of Assessment has arrived. As you unseal the envelope, your hands begin to tremble. Your math differs from the Canada Revenue Agency's – it's significant, and not a refund. How could this have happened?

Three common reasons for a surprise tax bill

1. **Income not taxed at source**
   If you receive income for more than one year in which an insufficient amount of tax is withheld, or none at all, the Canada Revenue Agency (CRA) could request that you start paying tax in instalments. It's most common if you receive regular rental, interest or dividend income, capital gains or self-employment income. Even Registered Retirement Income Fund (RRIF) withdrawals and certain pension payments may trigger quarterly installment payments, since tax is generally not withheld on these types of income.

You'll have three options for calculating instalment payments:

1. No-calculation (pay what the CRA asks)
2. Prior-year (your return is similar to last year but different from two years ago)
3. Current-year (your return is very different from past two years)

Determining the optimum amount requires an analysis of your cash flow situation and income forecast for the year ahead.

Consider paying what the CRA asks for in their notice to avoid possible interest and penalties from underestimating the amount of tax you will owe next year.

2. **Human error**
   The late Stephen Hawking cautioned "that Artificial Intelligence (AI) may replace humans altogether." It's a frightening thought, though if AI were to take over the burden of filing our taxes, it may not be such a bad thing. Until then, April will continue to be "tax month" and our tax returns will be prone to human error.

Here are a few common administrative mistakes that lead to reassessment:

- Missing slips (e.g. T5s and other income slips)
- Filing too early (i.e. sometimes slips haven't arrived, or other material changes come to head after you've filed that then require amendments)
- Mathematical or calculation errors

3. **Putting information on the wrong line**
   Tax filing has grown more complex over the years. A common mistake by DIY'ers is to claim an item on one line of their

tax return when it should be on another. For example, when you sell real estate, you won't always realize a capital gain – sometimes it is fully taxable income, or not taxed at all. Each type of income gets reported on a different line. Deductions can be equally confusing. Take the case of an eligible severance contributed to an RRSP. If claimed properly, it will not use RRSP room. Claim the deduction on the line for a regular RRSP contribution, and you could be over contributed to your RRSP. Mistakes like this are usually simple to correct or avoid but increasingly require experienced advice to eliminate in the first place.

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