Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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Dear Clients and Friends,

I would like to extend my warmest greetings and best wishes for a happy holiday season this year. I hope you have the opportunity to gather with friends and family to celebrate.

As I reflect back on 2018, this year has been a difficult one for investors. At the end of September, the only market showing positive year-to-date results was the U.S. market. The months of October and November reminded us about the downside risk of investing. The short-term losses were a result of concerns about the U.S. – China trade dispute, the U.S. mid-term elections and how quickly the U.S. would continue to raise interest rates. The swings in the market this year were confirmation that volatility is alive and well. While we do work hard to minimize short-term losses, our focus remains on making our clients successful in the long term.

Staying invested is still the recommended strategy for long-term investors. Short-term volatility continues to remind me of Warren Buffet's famous quote, "If you are not willing to own a stock for ten years, then don't even think about owning it for ten minutes".

Looking back over the last 60 years, every decade has experienced a crisis or two that has affected the markets. The Korean War started in 1950, the Cuban Missile Crisis and the assassination of JFK marked the 1960s. In the 1970s, it was the oil embargo and energy crisis and in the 1980s it was Black Monday caused by program trading. More recently, the 1990s saw the Gulf War, the Asian crisis and the demise of the Soviet Union, and in the 2000s we endured the 9/11 terrorist attacks, the Iraq war and the global financial crisis. Every time, global markets rebounded and went on to produce solid long-term gains.

What will 2019 look like for financial markets? We know that we are now in the later stages of the current bull market but our RBC analysts continue to believe that we are not yet near the point of a U.S. recession. Investors could still continue to see gains in the market during 2019, although they may be lower than average. Volatility will most likely continue as geopolitical events continue to move the markets. We will continue to manage clients' accounts based on both their individual risk tolerance levels and when they are expected to require income from their investment accounts.

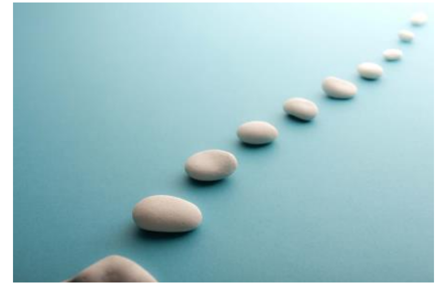
I would like to thank my very loyal clients for their continued support, in addition to the new families that I have welcomed this year as clients. I am also very grateful to have two wonderful support staff, Heather Murdock and Mary Howley, who are both very important in providing exceptional service to my clients.

Best wishes for a safe and happy holiday season,

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. 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.

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.

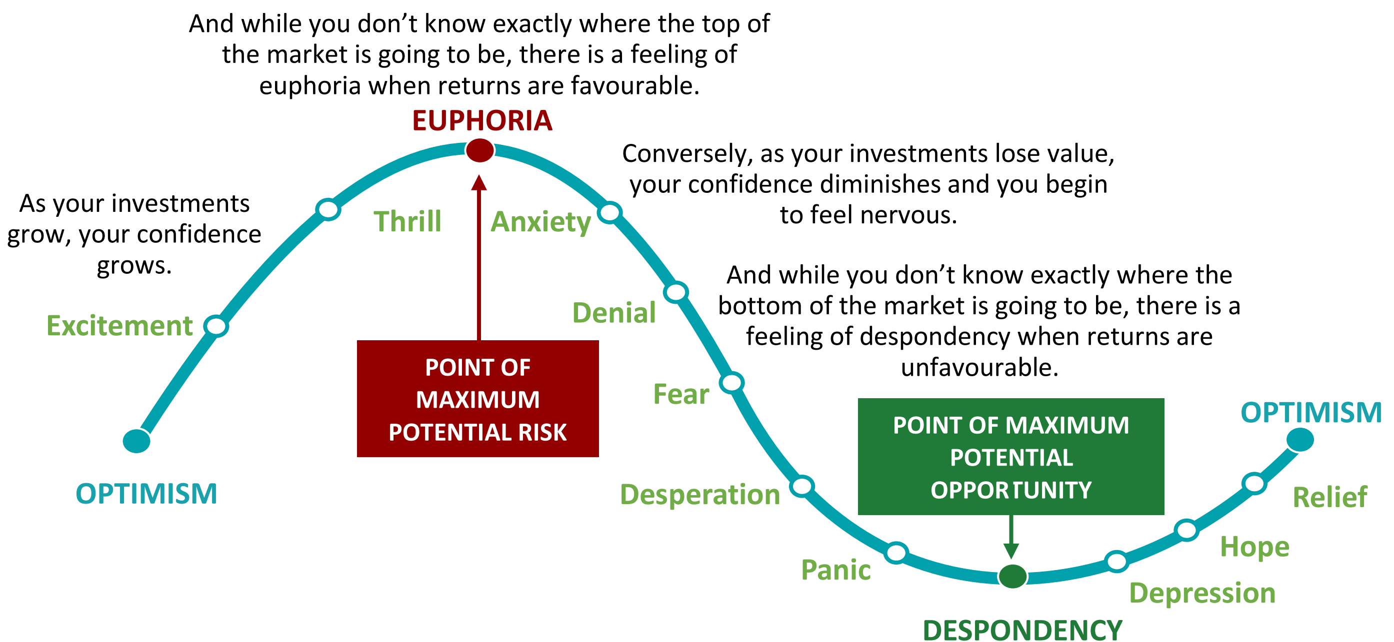
Maintain your sense of perspective

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 is correlation?

And why is it important when diversifying?

“Correlation” is a mutual relationship or connection between one or more things. In your portfolio, correlation measures how different investments move in relation to each other.

“Positive correlation” means that as one investment (such as a stock or bond) increases or decreases in value, the other will do the same. For example, stocks of a company that manufactures car parts are positively correlated with the stocks of a company that manufactures cars. If the car manufacturer is performing well and producing more cars to keep up with market demand, the manufacturer supplying car parts may also perform well.

“Negative correlation” is when two securities move in opposite directions. Using our car manufacturer as an example, let’s say its stock is negatively correlated to a bus company’s stock (because, if the market changes and consumers buy fewer new cars, they may take buses more often).

Ideally, your portfolio should include investments that have lower or negative correlation in order to benefit from the risk-reducing effect of diversification, i.e. as one investment goes down, another goes up to offset it. If you only hold investments that are positively correlated – that tend to go up or down at the same time – your portfolio is probably not properly diversified.

Asset class diversification

Striking an appropriate balance between growth and stability

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Global Bonds 9.6%	EM Equities 51.6%	CDN Equities 17.6%	CDN Bonds 9.7%	EM Equities 15.6%	US Equities 41.6%	US Equities 24.4%	US Equities 20.8%	CDN Equities 21.1%	EM Equities 28.3%
CDN Bonds 6.4%	US HY Bonds 44.5%	US HY Bonds 14.3%	Global Bonds 6.5%	US HY Bonds 15.4%	INTL Equities 31.0%	Balanced 11.4%	INTL Equities 19.0%	US HY Bonds 14.3%	INTL Equities 16.8%
Cash 2.6%	CDN Equities 35.1%	EM Equities 12.7%	US HY Bonds 5.7%	INTL Equities 14.4%	Balanced 14.2%	CDN Equities 10.6%	Balanced 6.5%	US Equities 8.6%	US Equities 14.1%
Balanced -13.3%	Balanced 14.4%	US Equities 9.2%	US Equities 4.3%	US Equities 13.1%	CDN Equities 13.0%	Global Bonds 9.4%	CDN Bonds 3.5%	EM Equities 7.3%	CDN Equities 9.1%
US Equities -22.9%	INTL Equities 11.9%	Balanced 8.9%	Balanced 1.5%	Balanced 7.9%	US HY Bonds 7.1%	CDN Bonds 8.8%	EM Equities 2.0%	Balanced 6.5%	Balanced 8.8%
US HY Bonds -25.7%	US Equities 9.3%	CDN Bonds 6.7%	Cash 0.9%	CDN Equities 7.2%	EM Equities 3.9%	EM Equities 6.6%	Global Bonds 1.9%	Global Bonds 3.5%	US HY Bonds 6.4%
INTL Equities -29.6%	CDN Bonds 5.4%	Global Bonds 3.8%	CDN Equities -8.7%	Global Bonds 5.3%	Cash 1.0%	US HY Bonds 4.3%	Cash 0.6%	CDN Bonds 1.7%	CDN Bonds 2.5%
CDN Equities -33.0%	Global Bonds 1.1%	INTL Equities 2.5%	INTL Equities -10.3%	CDN Bonds 3.6%	Global Bonds 1.0%	INTL Equities 3.7%	US HY Bonds -2.7%	Cash 0.5%	Global Bonds 1.8%
EM Equities -41.6%	Cash 0.4%	Cash 0.4%	EM Equities -16.4%	Cash 0.9%	CDN Bonds -1.2%	Cash 0.9%	CDN Equities -8.3%	INTL Equities -2.5%	Cash 0.6%

Fixed income			Equities					
CDN Bonds Canadian Bonds	US HY BONDS U.S. High-Yield Bonds	Global Bonds Global Bonds	CDN Equities Canadian Equities	US Equities U.S. Equities	INTL Equities International Equities	EM Equities Emerging Market Equities	Cash Cash	Balanced Balanced Portfolio
FTSE TMX Canada Universe Bond Index	ICE Bank of America Merrill Lynch US High-Yield BB-B TR Index	FTSE World Government Bond TR Index	S&P/TSX Composite Total Return Index	S&P 500 Total Return Index	MSCI EAFE Total Return Index	MSCI Emerging Markets Total Return Index	FTSE TMX Canada 30 Day T-Bill Index	55% Equity / 45% Fixed Income

Source: RBC Global Asset Management Inc. All performance is in C$. TR represents total return.
Balanced Portfolio represented by 2% Cash, 43% Fixed Income, 19% Canadian Equities, 20% U.S. Equities, 12% International Equities and 4% Emerging Market Equities.

2018 Year End Tax Tips

As year-end approaches, it is wise to take some time to review your financial affairs for any tax savings strategies. Here are a few strategies for your consideration, all of which should be reviewed with your qualified tax advisor to ensure they make sense for you.

Tax Loss Selling Opportunities

Year end is a great time to look for opportunities to make changes to your non-registered investment portfolio. It may be the time to move away from an investment that has not been performing well and potentially triggering a capital loss, which can be used to offset capital gains on other assets that you may have sold earlier this year, or may sell in future years. The capital loss that you realize on the sale of an investment (outside of RRSP, RRIF or TFSA) can be carried forward to offset capital gains in future years as well. The deadline to trigger a capital loss (or gain) for 2018 is December 27th to make sure the trade settles by December 31st. Capital losses can also be carried back 3 years to offset capital gains you have realized and already paid tax on (potentially resulting in a tax refund for you).

Defer Realizing Capital Gains

Deferring a capital gain to next year is also a common tax planning strategy. As we approach the end of 2018, if you currently have unrealized capital gains you may want to consider deferring the realization of capital gains until 2019 for the following reasons: your marginal tax rate may be lower in 2019 compared to 2018, and if you wait until 2019 to sell a security with a capital gain, it defers the tax payable until April of the following year, 2020 (unless you are required to make tax installments).

Superficial Loss

If you did sell a security to trigger a capital loss and are planning to repurchase that same security, beware of the "superficial loss" rules that apply when you sell property for a loss and buy it back within 30 days before or after the sale date. Under the rules, your capital loss would be denied.

TFSA Accounts

The Tax Free Savings Account allows you to earn tax-free investment income including interest, capital gains and dividends. You can make tax-free withdrawals any time, for any reason, and any amount you withdraw is added back to your available contribution room on January 1st of the following year. If you are thinking of making a withdrawal from your TFSA in the near-term, consider doing so before December 31st. This will allow you to recontribute the amount withdrawn as early as January 1st of 2019, rather than having to wait until 2020. New TFSA contributions for 2019 can be made on the first business day in January. The federal government has raised the annual TFSA contribution limit to $6,000 for 2019, up from $5,500. The TFSA's annual contribution limit amount is indexed to inflation, and rounded to the nearest $500, using the consumer price index provided Statistics Canada. With the TFSA contribution limit rising to $6,000 for 2019, the cumulative TFSA contribution limit in 2019 will be $63,500 for a Canadian who has never contributed to a TFSA, and who was 18 years old or older in 2009, the year in which the program was launched.

Wealth Management
Dominion Securities

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