Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

Winter 2019

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 we draw closer to the end of 2019, it is a good time to reflect on what happened this year in the financial markets. We seemed to continually climb a “wall of worry” this year even though stock markets have shown solid returns for the year. It was a year to remember, but for all the wrong reasons. The yield curve inverted, China and U.S. trade conflicts intensified, Brexit created uncertainty and economic growth seemed to be slowing. Recently, many central banks around the world have decided to be proactive and have started to lower interest rates in an attempt to allow the current economic cycle to continue. With many negative headlines this year, I have had some clients who had feelings of angst and uneasiness about their investment portfolios be pleasantly surprised with their 2019 rate of return.

As we move from fall into winter, investors may be wondering if the economy is moving into its next stage too. Could a recession be on the horizon? Our RBC analysts continue to suggest that we will probably not see a recession in 2020 based on current indicators and also because there is an election in the U.S. next year. President Donald Trump will most likely want to create good news stories by making policy decisions that will enhance the likelihood of him remaining in the oval office for another 4-year term. As long as trade tensions continue to de-escalate, the stock markets should keep moving higher. The U.S. yield curve is now sloping positive, the job market is robust and the U.S. consumer is healthy both in terms of household wealth and the savings rate.

As always, we cannot predict what will happen in the markets tomorrow, next week or next month. It is important that we continue to focus on the variables that are within our control and remain long term investors for our future financial success.

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

Receive your Tax Documents Electronically

With tax season just around the corner, now is the time to sign up for online delivery of your tax documents from RBC Dominion Securities before December 31st. To receive the easy instructions on how to set this up online, please contact Heather Murdock at heather.murdock@rbc.com

Four ways to diversify your investment portfolio

Of the many ways you can diversify your portfolio, four key strategies emerge: diversifying by geography, by sector, by asset class and by style.

1. By geography

Our Canadian pride might be a powerful advantage during hockey games, but in your portfolio it often pays to look beyond our borders. Because different markets around the world perform differently at different times, when the markets decline in one region or country, the markets somewhere else go up. By investing in a blend of global markets, you can help limit the negative impact of any single area's market going down.

Many Canadians would be surprised to learn that investing only in Canadian companies may actually increase portfolio risk. One reason is that our markets are concentrated in just a few select economic sectors, particularly the resource and financial sectors. When these two sectors don't perform well, the entire Canadian market feels it.

2. By economic sector

Different sectors of the economy also perform differently over time. Take the telecommunications and automotive sectors as an example. Both sectors may perform well when the markets are strong. When the markets begin to falter, most investors will wait to purchase a new car but will keep their smartphone or landline. So the losses you might experience from your automotive investments may be offset by the performance of your telecommunications investments.

3. By class

The basic building blocks for most diversified investment portfolios are the three major asset classes: equities (like stocks), fixed-income (like bonds and GICs) and cash. Historically, stocks have tended to provide the strongest long-term returns compared to bonds and cash, which don't fluctuate as much in value over time but tend to offer greater protection of your investment. By diversifying your investments among these three asset classes, you can help balance your risk and reward.

How you balance these three asset classes largely depends on your stage in life:

- During your income-earning years, you have more time on your side to allow for the inevitable ups and downs of the stock markets to smooth out. Depending on your individual situation, it may make sense to allocate a larger percentage of your portfolio to stocks, with some bonds for stability and cash to take advantage of new opportunities.
- As you get closer to retirement, you probably want more assurance that your investments will not lose value. At this stage you might gradually adjust your asset mix to include a larger amount of bonds, while reducing the percentage of stocks. This can provide more stability, while still providing some long-term growth.
- Once you've reached retirement, your focus will probably be on generating income from your investments. You may increase your asset mix in favour of bonds but still keep a percentage of stocks for long-term growth. As Canadians continue to enjoy better health and longer lifespans, you'll want to ensure some growth so that you don't outlive your savings

4. By style

Value, income, growth – there are many different styles of investing, and choosing more than one style can help reduce risk in your portfolio. If value investing provides the strongest returns in one year, income investing could be the better strategy the next year.

Because it's impossible to predict exactly which of these styles of investing will be "in" or "out" at any given time, it makes sense to diversify to reduce risk. As with other types of diversification, it can help smooth out the returns and mitigate the losses in your portfolio.

What is Responsible Investing?

For many Canadians, it is important that their investments reflect their personal values. Responsible Investment (RI) is a strategy to deliberately incorporate personal values into investment strategies. RI is growing in popularity as a number of demographic groups want to do something positive with their investment strategy, which may include helping the environment, battling climate change or promoting social values such as fair labor practices.

Responsible Investment can be broken down into two main categories:

1. Environmental, Social and Governance (ESG)

ESG refers to integrating Environmental, Social and Governance factors relevant to an investment which may have a financial impact on that investment. This is a positive screening strategy to find companies to **include** that have strong ESG practices in place. The goal with ESG investment strategies is to improve performance while limiting exposure to companies that do not meet ESG standards.

What are Environmental, Social and Governance (ESG) factors?

How does a company

Environmental (E)

Act as an environmental steward

- climate change
- greenhouse gas (GHG) emissions
- resource depletion, including water
- waste and pollution
- deforestation

Social (S)

Treat employees, customers & communities

- working conditions, including slavery and child labour
- local communities, including indigenous communities
- conflict
- health and safety
- employee relations and diversity

Governance (G)

Govern itself

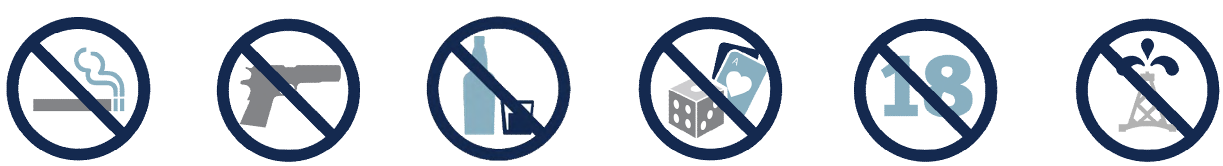
- executive pay
- bribery and corruption
- political lobbying and donations
- board diversity and structure
- tax strategy

2. Socially Responsible Investing (SRI)

SRI refers to Socially Responsible Investing which is a negative screening process that **excludes** companies from the investment universe based on a defined set of values. In general, socially responsible investors encourage corporate practices that promote environmental stewardship, consumer protection, human rights and diversity. SRI allows investors to align their investment with their values.

Exclusions for Socially Responsible Investing

- SRI investing typically involves **excluding** investments in a portfolio based on an investor's beliefs or values. A negative screen is usually employed excluding certain industries or companies from a portfolio according to a pre-defined ethical standard.
- SRI mandates, for example, will remove from consideration investments in companies related to tobacco, alcohol, gambling, weapons manufacturing, or the extraction of fossil fuels.



Tobacco | Weapons | Alcohol | Gambling | Adult Entertainment | Fossil Fuel

If you would like to learn more about how to incorporate Responsible Investing into your portfolio, please contact Sandra Sparanese.

2019 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 2019 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 2019, if you currently have unrealized capital gains you may want to consider deferring the realization of capital gains until 2020 for the following reasons: your marginal tax rate may be lower in 2020 compared to 2019, and if you wait until 2020 to sell a security with a capital gain, it defers the tax payable until April of the following year, 2021 (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 2020, rather than having to wait until 2021. New TFSA contributions for 2020 can be made on the first business day in January. The annual TFSA contribution limit remains at $6,000 for 2020. With the TFSA contribution limit of $6,000 for 2020, the cumulative TFSA contribution limit in 2020 will be $69,500 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.

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