RBC Dominion Securities Inc.

Cooper Wealth Management

Wealth Management
Dominion Securities

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"Everyone has a plan until they get punched in the face."
– Mike Tyson

Brexit and the go-forward plan

In a historic vote, the United Kingdom has decided to leave the European Union. The decision was unexpected but the fallout was predictable, with a selloff in global stock markets, a sharp fall for the British pound and a surge in gold and the U.S. dollar. It has also led to speculation of another Scottish referendum as well as a splintering of the European Union.

In our opinion, these dire outcomes are unlikely, as voters in other countries will see the fallout of the United Kingdom vote and would not want the same consequences for their country. Also, the process cannot even begin until October when a new Prime Minister is elected and is expected to take two years to fully complete. The question is: How do we invest as this situation unfolds?

Here is our game plan:

1) **Keep investments North American–based.** Companies such as Home Depot and Dollarama are focused domestically, and their strong growth will help offset international volatility.

2) **Have a 30-35% U.S. portfolio weighting.** The U.S. dollar is still viewed as the global safe haven in times of crisis. Currency appreciation will aid in offsetting stock market losses, as we witnessed on June 24, 2016.

3) **Hold only strong and growing multinationals.** Companies such as Visa and MasterCard, who have continued to grow their businesses in all economic conditions, meet these criteria. Also, ARM Holdings, a large and growing international company that manufactures smart phone components.

4) **Avoid the temptation of gold and gold stocks.** We prefer to use our U.S. dollar exposure to hedge our portfolios, as the global oversupply of gold remains in place and gold's volatility would lead to sharp swings in portfolio values as the political situation becomes clearer and market fears ease.

5) **Continue to focus on delivering strong cash flows.** Dividend income, along with the premiums we collect on your behalf through our covered call program, will continue to be an important component of your overall portfolio return. The increased volatility caused by Brexit will actually help in this regard, as option premiums tend to increase with market fluctuations as traders speculate on a broader number of possible outcomes.

Most other market conditions remain unchanged. The U.S. Federal Reserve, which had been contemplating another 25 basis point interest rate increase, will now likely be on hold for the foreseeable future until the damage from the Brexit vote can be fully assessed. If by some chance the Federal Reserve did decide to raise interest rates, this would only serve to further increase the U.S. dollar and improve portfolio performance. However, we view this as an unlikely outcome until the United Kingdom's political situation is clarified. The most likely outcome is that U.S.

bond yields head lower as international bond managers continue to head for the safety of the U.S. dollar.

Oil continues to be approximately $48 per barrel, even after the June 24 selloff, having recently been at $50 a full six months ahead of our forecast. We see oil heading to $60 per barrel into 2017, as the North American production cuts continue to take effect. We are targeting an approximately 20% oil weighting as we move through the balance of the year.

The past quarter has seen stocks begin to move in the right direction. While the Brexit vote is a temporary distraction, we expect the uptrend to continue as investors once again refocus on fundamental investment values and the political turmoil begins to calm.

As always, if you have any questions or concerns regarding your portfolio, please give us a call.

Yours truly,

Walter Harmidarow and the
Cooper Wealth Management Team
of RBC Dominion Securities

> The most likely outcome is that U.S. bond yields head lower as international bond managers continue to head for the safety of the U.S. dollar.

What is CRM2?

Providing investors with greater transparency about the cost and performance of their accounts is the driving force behind new industry-wide regulations, known as the Client Relationship Model II (CRM2).

What is CRM2?

- New industry-wide regulations that improve how the financial industry reports and discloses information to investors
- Changes are now being phased in, with full implementation at RBC Dominion Securities by early 2017. It includes two new reports: (1) account costs and (2) account performance.
- Applies to all investment dealers and advisors in Canada, including:
  - Investment dealers regulated by the Investment Industry Regulatory Organization of Canada (IIROC), such as RBC Dominion Securities
  - Firms regulated by the Mutual Fund Dealers Association (MFDA), such as the respective mutual fund distributor of each of the major banks
  - Investment counselling firms regulated by provincial securities commissions in Canada

Why is CRM2 being implemented?

- CRM2 is part of a global shift towards increased disclosure and transparency in the investment industry
- To provide investors more details on the fees and performance of their investment accounts
- To improve investors' ability to assess how they are progressing towards their financial goals

How will CRM2 affect you?

- CRM2 does not change the amount you are paying your investment firm; it only provides more detail to you about your account fees and performance.
- All investors will receive more specific details on the cost and performance of their investments via:
  - Conversations with their advisor
  - More details on existing account statements and confirmations
- Two new annual reports you will receive starting in 2017 for all investment accounts:
  1. An **Annual Charges and Compensation Report**, showing a detailed list of account fees
  2. An annual **Investment Performance Report** to provide details on how the account is performing using a "money-weighted" rate of return

Positive change for our industry

- RBC Dominion Securities strongly supports the changes under CRM2.
- CRM2 builds on our commitment of continued transparency for clients.
- Helps you achieve your financial goals by keeping you informed of the details of your account(s).

Time-weighted vs. money-weighted rates of return

While there are a number of ways to calculate an investment rate of return, the time-weighted rate of return calculation is the more common method used in the investment industry. However, by early 2017, all investors will receive an annual money-weighted rate of return, included with a new annual investment performance report. Both are valid and acceptable calculation methods, but each has different uses and can be appropriate in different circumstances.

Introduction

In new annual performance reports that investors will receive by early 2017, rates of return will reflect the mathematical money-weighted calculation, versus the more commonly used time-weighted calculation. All investors in Canada will receive this new report with the money-weighted rate of return, according to Canadian investment regulators.

This article is a general and non-mathematical explanation of the differences between money-weighted and time-weighted rates of return, and provides examples of when you may see a difference in the rate of return for a given portfolio over the same time period.

Time-weighted

The time-weighted calculation is the financial industry and RBC Dominion Securities standard method to measure performance. For example, the methods most commonly used to calculate the performance of financial market indices and mutual funds are types of time-weighted calculation methods.

Time-weighted methods do not take into account the effect of an individual's contributions or withdrawals. This method is useful to calculate the performance of broad market indices or mutual funds because contributions and withdrawals – activities that can impact performance, but are not in the fund manager's control – are not taken into account in this calculation method.

Money-weighted

In contrast to time-weighted, money-weighted calculates the rate of return including the impact of contributions to, or withdrawals from, the portfolio.

For example, if an investor contributes a significant sum into their portfolio just prior to the portfolio's performance rising, intuitively, this is a positive action. Now this larger portfolio benefits more, in dollar terms, from the portfolio's growth than if the contribution had not been made.

Conversely, if the investor withdraws a significant sum from their portfolio just prior to the portfolio's performance rising, intuitively, this is a negative action. Now this smaller portfolio benefits less in dollar terms from the portfolio's growth than if the withdrawal had not been made.

Why do the new performance reports use the money-weighted calculation?

The money-weighted rate of return factors in the impact of your contributions and withdrawals to and from your portfolio. And, because

A quick summary

- The timing of cash flows that you direct, such as contributions (which includes transfers in-kind) and withdrawals, can affect your portfolio's rate of return
- Time-weighted rate of return calculation **does not include** the effect of these cash flows
- Money-weighted rate of return **includes** the effect of these cash flows
- If there are no cash flows, the two methods will produce the same rate of return

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the timing and amount of these contributions and withdrawals can be different for each individual investor's portfolio, Canadian securities regulators see money-weighted as the most appropriate way to measure your portfolio return.

While time-weighted return calculations are useful for assessing the performance of your investment managers relative to market benchmarks, money-weighted calculations help you assess your personal performance relative to your individual financial plans and projections.

Simplified comparison of money-weighted to time-weighted

The table below generally compares money-weighted and time-weighted outcomes for a given portfolio and time period in six typical scenarios.

Portfolio Activity	Portfolio Performance	
	... a period of positive portfolio performance	**... a period of negative portfolio performance**
Material contribution into the portfolio just before...	Money-weighted rate of return will tend to be greater than time-weighted rate of return	Money-weighted rate of return will tend to be less than time-weighted rate of return
Material withdrawal from the portfolio just before...	Money-weighted rate of return will tend to be less than time-weighted rate of return	Money-weighted rate of return will tend to be greater than time-weighted rate of return
No material contributions to or withdrawals from the portfolio just before...	Money-weighted rate of return and time-weighted rate of return will be very similar, if not the same	Money-weighted rate of return and time-weighted rate of return will be very similar, if not the same

Thank you

It has been our pleasure to help you with your investment needs over the years, and we'd like to take this opportunity to personally thank you for your support.

We especially want to thank those of you who have been kind enough to refer your friends and family to us. Our business is still growing and we continue to welcome the opportunity to meet new people.

Once again, thank you for your support and we look forward to serving your future investment needs.

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