RBC Dominion Securities Inc.

Westside Viewpoints

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Wealth Management
Dominion Securities

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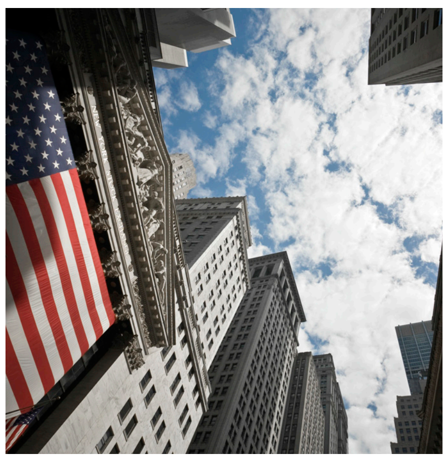
Services we provide:

- Fee-based portfolio management
- Estate planning, financial planning
- Tax-exempt investment strategies
- Life, long-term care and critical illness insurance

Invest according to the business cycle, not the political cycle



This U.S. presidential cycle has been like no other as the rhetoric has reached meteoric heights, while the discourse seems to have continually plunged to new lows. Many investors seem nervous to invest ahead of the fall election, preferring to wait and see how things turn out at the polls. But we remind you that history has shown that market performance is more closely tied to economic and business conditions than the political environment. Remember that while U.S. presidential elections certainly make for sensational headlines, they aren't usually great trading events.

It's also useful to note that the perception of a U.S. president's power pales in comparison to the actual power the position holds. Article 11 of the U.S. Constitution is mostly focused on the executive branch of government (the presidency) and it grants few specific powers to the president, especially in the area of domestic policy. The president can propose legislation but cannot unilaterally pass legislation and make it law.

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Invest according to the business cycle, not the political cycle
(continued from page 1)

Financial markets are largely a reflection of the business cycle and economic conditions. The U.S. economy continues to exhibit steady growth and we believe investors should base their investment decisions on the health of the economy and not on fears of political risk, which are likely overblown.

The U.S. economy, as reflected by key leading indicators and job growth, continues to hum along at a decent clip. The pace of job growth has remained in positive territory for over six years and in recent months has shown signs of acceleration. The labour participation rate has edged up in recent months while the employment rate has remained steady. This suggests new entrants to the labour market have been able to find jobs, which will likely encourage other discouraged workers to re-enter the labour force.

We believe financial conditions are far more important than the perception of political risk in the U.S. If financial conditions were to tighten significantly, whether through wider credit spreads and/or rapidly rising interest rates, we believe business conditions would be challenged and we would adjust our portfolio positioning accordingly. No matter who the next U.S. president is, the reality is that people will still go to Costco, they will want to get their coffee from Starbucks, thousands of cars will go to McDonalds' drive throughs, kids will have family vacations at Disneyland, and everyone will continue to heat their homes. In other words, the companies we like to invest in will continue to do well in the foreseeable future.

In closing, the U.S. presidential contest should not serve as an impetus to shift course on your investments. Presidents have little unilateral power when it comes to domestic policy in the U.S. For any initiative to be achieved, it requires significant compromise with Congress. Lastly, the business cycle should drive investment decisions, and the U.S. economy continues to be on a solid growth trajectory.

Drilling down on our investment philosophy

Tireless pursuit of well-managed businesses

When constructing a portfolio, our primary objective is to ensure that the companies we own are of the highest quality. We find that holding a group of exceptional and resilient businesses provides the comfort required to navigate through volatile market environments without fixating on exogenous market factors that are beyond our control.

The determination of "quality" requires a certain degree of subjectivity. There are, however, several characteristics that the most consistently profitable companies tend to share across industries and geographies. These include: 1) some form of sustainable competitive advantage; 2) a track record of attractive returns on capital/dividends; 3) strong management teams with a disciplined approach to capital allocation; and 4) reasonable financial leverage.

With our continued low interest rate environment, it is tempting to "reach for yield." Reaching for yield, meaning the tendency to take on more risk to increase the current yield in a portfolio, is a common trap for dividend investors that we work hard to avoid. We tend to err on the side of conservatism, favoring quality and resiliency at the expense of maximizing yield. High yielding companies tend to be in highly cyclical industries. Attractive as their yields are, we always approach these names with added caution and generally limit their exposure in the portfolio.

Time horizon

We manage the portfolio's risk exposures diligently, and find little value is typically added by chasing short-term trends or making large bets on macro-economic variables. Instead, we take a multi-year time horizon. A disciplined long-term focus and willingness to step in during volatile times to take advantage of opportunities can add considerable value to a portfolio over time.

Sector allocation

A broad representation of sectors is an important consideration when constructing a portfolio. That said, we prefer to overweight a sector populated by attractive dividend-paying companies rather than force ourselves into a lesser-quality investment simply for the purpose of ensuring that our sector exposure is in-line with the benchmark. As such, our portfolios may be skewed more towards sectors that offer a wider selection of dividend-paying businesses, such as financials, consumer staples, health care and telecom.

The stock discovery process

Our stock selection process begins with a quantitative analysis—a ranking of companies based on a number of metrics including dividend yield, dividend growth, free cash flow, and various return and payout metrics. The purpose of this initial screening is to narrow down the universe of stocks under consideration for investment.

After a robust quantitative process is complete, we begin the bottom-up work. This is where we strive to find high-quality businesses with sustainable competitive advantages and high barriers to entry. We also examine the balance sheet to ensure that dividend sustainability is solid. Lastly, we look at numerous valuation metrics and do comparative analysis between a company's current valuation with its peers and its historic valuation range.

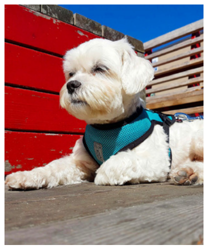
The smell test

As a final step in our stock selection process, we look to identify any potential red flags that could derail our investment thesis. We consider numerous pitfalls including potential accounting issues, insider selling and the short-interest on the stock.

What's new at the Westside Wealth Management Group of RBC Dominion Securities

Michelle recently travelled to Haida Gwai for a holiday and came home with an adorable rescue dog, Roxy.

Kate's soccer team competed in the Americas Masters Games in August and won a bronze medal. Here she is with her teammates celebrating their victory.



BC Training and Education Grant now available at RBC

If you have a child born in 2006 or later, you may be eligible for the $1,200 BC Training and Education Grant, introduced in the Provincial Budget earlier this year.

The payment is a one-time grant. The earliest you can request the grant is when your child turns six. After that, you can apply any day before their 9th birthday.

The grant applications are now available at RBC branches. (Unfortunately we cannot do them here at RBC Dominion Securities.)

The process is pretty straightforward. Simply go into a local RBC branch, open up an RESP (even if you already have one with us or another financial institution), apply for the grant, and you will receive your funds in six to eight weeks.

If you need assistance, we are happy to refer you to someone at your local branch.

Wealth Management
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