Portfolio Advisor

Wealth Management
Dominion Securities

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Pejovic & Associates Private Wealth Management
RBC Dominion Securities

Petar Pejovic, BA, CIM
Portfolio Manager
petar.pejovic@rbc.com
204-982-2695

Milos Pejovic, BA,CIM,FMA
Portfolio Manager
milos.pejovic@rbc.com
204-982-4587

3100-201 Portage Avenue
Winnipeg, MB R3B 3K6
www.pejovic.ca
204-982-3471
1-800-465-9775

Market commentary

While the U.S. business cycle is clearly mature, economic and earnings growth are both sturdy, and we see no signs of an imminent recession. This positive background is reflected in valuations that are at a modest premium to historical levels. We maintain a slight overweight in global equities.

Fundamentals in other developed countries are perhaps not as robust, but they remain very respectable, and valuations are at notable discounts. Emerging markets are beginning to look interesting, but fundamentals and valuations need to improve before we can become more positive.

Overall, we would expect modest gains from equities over the next 12 months. Bouts of volatility arising from concerns over tariffs, the U.S. midterm elections, or emerging markets are to be expected and may offer selective opportunities to add to positions.

Fixed income

"Accommodative" monetary policy should soon be a thing of the past, although the Federal Reserve is well ahead of its counterparts in normalizing monetary policy. The Fed and Bank of Canada are slowly raising interest rates as the U.S. and Canadian economies continue to grow and inflationary pressures begin to firm. Across the pond, the Bank of England is on pause as it awaits the outcome of Brexit negotiations, while the European Central Bank confirmed it will take initial steps to slow the expansion of the balance sheet and ultimately phase out asset purchases by year's end. It too is on the lookout for inflationary pressures.

We maintain our underweight recommendation for fixed income, and prefer to be invested in shorter maturities given the flatness of global yield curves. We are overweight credit, and favor high-quality bonds due to rich valuations in riskier areas of the market.

To learn more, please ask us for the latest issue of Global Insight.

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Hindsight is 20-18

A butterfly flaps its wings and sets off an ice storm – or so The Butterfly Effect theory goes. Mathematician Edward Lorenz was studying weather patterns when his models revealed tiny changes to initial conditions dramatically altered the results. He used the flap of a butterfly's wings as a metaphor for the unpredictability of long-term weather events. But it's also the perfect metaphor for market downturns. Something seemingly benign and near impossible to predict was the beginning of the next decline.

2000 – Irrational exuberance

Popularized by Alan Greenspan, "Irrational exuberance" became the catchphrase explanation for the dot-com bust. It refers to late-'90s investors' confidence that dot-com stock prices would continue to rise despite non-supporting fundamentals. Hundreds of new internet companies reached valuations in the hundreds of millions, if not billions, having never made a profit only to soon crash into nothing.

The easiest explanation for the dot-com crash was excitable investors, propping profitless tech companies so high it eventually became their own undoing. But the fuse was likely set three years before. Between 1997 and 1999, interest rates were low and Asia was in the midst of a financial crisis; money was cheap and in search of a home. Then on August 5, 1997, The Taxpayer Relief Act was signed into law in the U.S., thereby lowering the capital gains tax rate from 28% to 20% for securities held longer than 18 months. Non-dividend payers, often growth companies, became incredibly attractive. Tech companies were considered new, exciting and the ultimate growth stock opportunity. Over the course of 2000-2002, the NASDAQ Composite fell 78%, and tech companies lost trillions in value. Looking back, the investing environment in 1997 was the beginning of a perfect storm.

2008 – Subprime mortgages

The 2008 financial crisis was the worst recession in 80 years. Many point to lenders who peddled subprime mortgages to borrowers with poor credit histories and little hope of repaying. Risky loans certainly played a part, but weren't the catalyst. After all, subprime lenders needed an incentive to write loans they knew they couldn't recover.

Arguably, it began in 1999 when U.S. banks were allowed to invest in derivatives using traditional deposits. This ability to speculate, coupled with leaps in financial engineering, led to toxic mortgages being pooled together, sliced and diced, and sold as investment-grade financial products. Subprime lenders didn't have to worry about keeping toxic loans on their books because they could sell them to be repackaged. In hindsight, the 1999 legislative change may have set off a chain reaction that brought the global economy to the brink of collapse nine years later.

20XX?

Not unlike the weather, markets are influenced by millions of tiny changes. Technological innovation, legal reform, market sentiment, Presidential tweets – all have the potential to alter the course of the markets. There are three things we can reasonably predict: 1) There will always be forecasts calling for the next market hiccup; 2) You never truly know the cause of a downturn until it's too late; 3) Historically, U.S. and Canadian markets have always recovered.

Like planning a barbeque for two months from now and worrying about rain, the best course of action for weathering market fluctuations is to develop a plan, diversify your investments, and stick to the plan. To learn more, please contact us today.

Time well spent

Planning for a successful retirement is about more than just saving – it's also about your state of mind

Will Rogers once said, "Half our life is spent trying to find something to do with the time we have rushed through life trying to save." While the famous humourist may have been exaggerating for effect, the fact is that Canadians today are retiring on average at 63* and yet are living longer than ever before – many into their 90s. This means retirees will increasingly experience a retirement life stage of 30+ years – often longer than many have worked.

The 2,000-hour conundrum

While longer lifespans can be a blessing, they can also be a challenge regarding physical and psychological well-being. Many retirees are thrilled to be ending their working years and have thoroughly planned for it from a financial standpoint. However, many do not plan for a new and very real challenge: with the average Canadian working approximately 2,000 hours a year, what will they do with all that suddenly free time?

Beating the retirement blues

Soon-to-be retirees often view their retirement as a permanent vacation from work. It's the chance to do the things they've always wanted to do but never had the time or opportunity to: hit the snooze button, travel the world, play endless rounds of golf, catch up on their reading list or tick the box on their various "bucket list" items.

However, after spending the initial years of retirement occupied by fun-filled activities, many retirees must adjust their lifestyles to address health constraints or mobility issues. What's more, many retirees begin to miss the engagement that their work life provided them, whether intellectual or social, or both. This letdown often leads to the retirement blues, or, more seriously, depression.

A different kind of bucket list

To beat the retirement blues, retirement experts recommend the following activities for retirees:

- **Working:** Working? Didn't we just put that behind us? Yes, as counter-intuitive as it may sound, many retirees choose to work – mostly on a limited basis – not because they have to but because they enjoy it. Almost half of Canadian retirees have done some sort of post-retirement work, reporting that it provided them with purpose, social interaction – and a little extra spending money.
- **Volunteering:** Giving back to their communities or important causes is another way retirees can meaningfully fill their time. Many retirees volunteer because they can be as active as their time or health permits, and balance their volunteer work with their other retirement pursuits.
- **Lifelong learning:** Going back to school to learn or complete a degree can provide retirees with a high level of engagement and mental stimulus, along with the joy of learning and the fulfillment of accomplishing a goal. New hobbies are another area of learning that can provide sustainable activity and engagement over time.

While a fulfilling life comes in many forms, retirees who plan for the non-financial aspects of retirement can avoid the retirement blues and discover that retirement, like age, is just state of mind.

To learn more, please contact us today.

* Statistics Canada, 2015.

Five ways to pay less tax in retirement

Managing your taxes can be as important as managing the investments you hold to generate your income – and they often go hand-in-hand.

1. Hold the right assets in the right accounts

Holding the right investment types in registered retirement accounts is a key component of minimizing taxes. Consider sheltering interest generating assets, as they are taxed at your marginal rate, while income from dividends and harvested capital gains are generally taxed lower. Further, dividends are treated quite differently than capital gains, and the potential impact on benefits such as Old Age Security (OAS) should be considered.

2. Manage asset sales in non-registered accounts

The order in which assets held in your non-registered investment accounts are sold is an important consideration. Whether an asset sale will trigger a capital gain or loss can have a significant impact on your taxes. You should be aware of whether you have the opportunity to offset capitals gains and losses, and should always consider which assets make most sense to sell from both a tax and investing standpoint.

3. Balance your registered account withdrawals

Withdrawing funds from your Registered Retirement Savings Plan (RRSP) is generally most beneficial when your tax rate is relatively low. On the other hand, Tax-Free Saving Account (TFSA) withdrawals do not trigger taxes and can make sense when your taxable income is relatively high, but additional funds are still required. Registered Retirement Income Funds (RRIFs) have minimum withdrawal requirements, but if extra funds are needed, consider making withdrawals when your marginal tax rate will be lower.

4. Equalize your income with your spouse

When one spouse is in a higher marginal tax bracket than the other, income splitting strategies can help reduce the total taxes paid by a couple. Employee pensions, government pensions and RRIFs all follow slightly different rules, but the income can often be split with a spouse. Spousal loans are another

way to help equalize income between spouses to lower total taxes.

5. Insurance solutions

Insurance solutions can offer more than just the security they're typically associated with, especially with respect to retirement income. Insured annuities typically provide higher after-tax yields than GICs and bonds, while tax-exempt life insurance has the potential to provide tax-free income during retirement.

Please contact us for more information about planning your retirement.

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