Wealth for Life

Wealth Management
Dominion Securities

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The new year started off with optimism in equity markets. Both the U.S. and Canadian equity markets were pricing in expectations that central banks were at or near peak interest rates. Then, in the last week of January, the Bank of Canada (BOC) announced at 0.25% increase. In the U.S., the Federal Reserve (Fed) announced a 0.25% increase on February 2, 2023, and delivered "hawkish" commentary that turned equity markets negative for the month.

Early in March, equity markets and the financial sector were rocked by the sequential failure of Silicon Valley Bank (SVB) and Signature Bank (SB). The run-on deposits by "uninsured" depositors were swift and unprecedented in their speed, owing to the efficiency of the digital era. The bank failures filled financial markets with anxiety and uncertainty, requiring the Fed to step in to run both banks.

The SVB and SB bank failures were the second- and third-largest, respectively, in history, behind only Washington Mutual in 2008, so comparisons to the Great Recession easily followed.

As the Fed took steps to stabilize the financial system, information about the businesses of SVB and SB began to surface. In both cases, errors in management of the banks created a glaring mismatch between short-term deposit funds and long-term investments made by the banks. The banks sold long-term investments to fund depositor withdrawals crystalizing massive losses by the banks, eroding the banks' capital and imperiling their viability.

The SVB and SB circumstances are regarded as idiosyncratic and not a systemic issue. However, given human nature, deposit runs did spill over to other banking entities, which took steps to assuage depositor concerns and solidify their balance sheets. Financial sector share prices were negatively impacted by investor "fear contagion," with U.S. regional banks being impacted the most. With 4,200 banks in the U.S., some very well established and secure banks were unfairly painted with the same stigma as their poorly managed and less fortunate peers. As the month ended, and at the time of writing, greater stability is returning to the financial sector. Large U.S. banks, and Canadian banks for that matter, are subject to broader and more comprehensive regulation and scrutiny for mismanagement like that of SVB or SB to persist. It will take some time for large U.S. regional banks to shed the cloud of "depositor fear," but they and mainstream banks are expected to see a recovery in confidence.

Never have we gone from near zero interest rates to 5% by the Fed in such a short period. The latest unprecedented increases in interest rates over the last 12 months have unleashed another "after-shock" of the pandemic. Remember the saying, "Beware of unintended consequences." Interest rate increases like these caused average losses in otherwise "safe and secure" bonds of over 11.5% in 2022. Some suggest that this man-made and forced recalibration of financial markets was a "step too far" by central banks, and has pushed the financial system to a "tipping point." Now, after the

Continued on page 2

Continued from page 1

repercussions of SVB and SB, lending is expected to tighten, creating further economic restrictions and exacerbating the Fed's interest rate increases yet to be felt.

Some may wonder why we/I focus more on the U.S. Fed rather than BOC. The reason is steeped in history – there has never been a global recession unless the U.S. enters a recession, so the direction of the U.S. economy is critical to global growth, including Canada. So, has the Fed gone too far? Many now argue yes, citing lagging economic indicators like rent and wages have yet to hit the all-important "CPI data." However, the strongest arguments I have listened to point out that month-over-month inflation in wages and rent are already trending to the Fed's targeted rate of 2%. Remember, interest rate increases hit the markets with a three- to six-month lag, so we have more interest rate tightening since October 2022 that has yet to hit the economy.

Financial markets have a way of telegraphing expectations for the future. For an extended period, short-term interest rates have been higher than longer-term interest rates – say on 10-year bonds – and the gap in March 2023 was quite large. Since its peak, two-year bonds have dropped from approximately 5.25% to 4.05%, while 10-year bonds dropped from 4.25% to 3.45%. The gap in these bonds has gone from approximately 1.2% to just 0.5% – this is a "significant" change that speaks volumes. The bond market – considered the "smart money" due to its size, is suggesting the "Fed has indeed gone too far" and will be forced to lower interest rates in the not-too-distant future. At the time of writing, U.S. March CPI was announced as 5% versus 6% in February representing a significant downturn in inflation – this is a very good sign!

Rising gold prices and the declining value of the trade-weighted U.S. dollar also seem to be confirming the bond market message about looming interest rate decreases. Now we are aware of the risks of "betting/investing" on "sure things"! What we are reasonably sure of, is that we are likely to experience a recession – hard or soft? – we'll see. Assuming the economic cycle of history still applies, we'll also enjoy the recovery from the expected recession, and the timing of all will remain unknown, at best.

Given the unprecedented nature of the pandemic since 2020 and the aftershocks of supply bottle necks, product shortages, lack of labour and now spiking interest rates, respect for the unknown is the preferred strategy. Positioning for the longer term, consistent with your goals has helped navigate recessions and corrections over the past years, as well as through the pandemic. With the prevailing uncertainties, a disciplined approach to investing will provide opportunities to weather expected volatility and take advantage of the eventual recovery.

If bond markets are the "smart money," then equity markets act more like the "emotional" money. We often characterize equity markets as being influenced by investors' emotions of "fear" and "greed." Frequently, we notice equity markets are at desperate lows when fear is most prevalent and at their peak in times of unbridled greed and optimism. When we correlate investors' emotions with other investor gauges of caution, we find fear and greed to be good contrarian indicators. At the time of writing, investor sentiment was just below the maximum fearful level – frequently considered a good time to invest!

"Patience is bitter, but its fruit is sweet."

-Aristotle

Steve Lester

myGPS™ – your Goals, Priorities, Solutions

Have you ever wondered what your financial future looks like?

Most in the field of personal finance agree that financial planning is an essential part of keeping your finances on track. For many people, though, a full financial plan can be expensive, time-consuming to prepare, and generate complicated output not appropriate in all situations. Wouldn't it be nice if there were a simpler way to get a holistic view of your changing wealth management needs and track progress towards meeting your future financial goals?

Wondering what your future looks like? myGPS™ provides an overview of your financial picture and how you are tracking to your short-term and long-term goals.

Introducing RBC Wealth Management's myGPS™

myGPS™ offers a prioritized view of your financial goals and recommends solutions to help achieve your wealth management needs.

- **Goals:** A wealth planning solution to identify and report on your goals
- **Priorities:** An integrated approach that pulls everything financially important into one place, enabling you to define and prioritize your milestones
- **Solutions:** An advice approach that helps identify opportunities and solutions on how to pursue those opportunities

myGPS™ isn't a financial plan. Rather, it is a report on things you already know (for example, your income, the equity in your house, the current value of your investments, and your annual taxes and expenses) projected into the future based on a set of assumptions about what may happen in the future (for example, the expected average rate of inflation, your long term goals and how much you intend to spend in retirement).

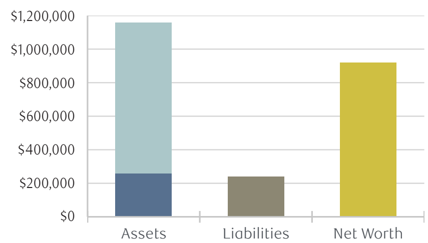
myGPS™ report: six key questions you want answered

myGPS™ provides an overview of your financial picture and how you are tracking to your short-term and long-term goals. Helping to provide financial peace of mind, myGPS™ helps answer six key questions that can easily keep you awake at night.

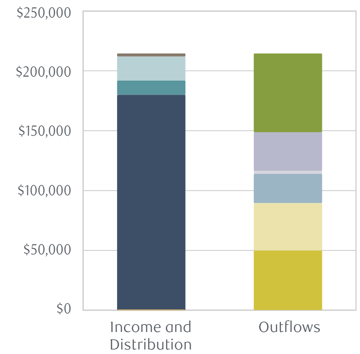
1. What does my current financial situation look like?

Current Net Worth & Current Cash Flow – myGPS™ provides consolidated summaries showing your incomes, savings, expenses, investments, real estate and debt – your critical financial information presented in one document.

Current net worth



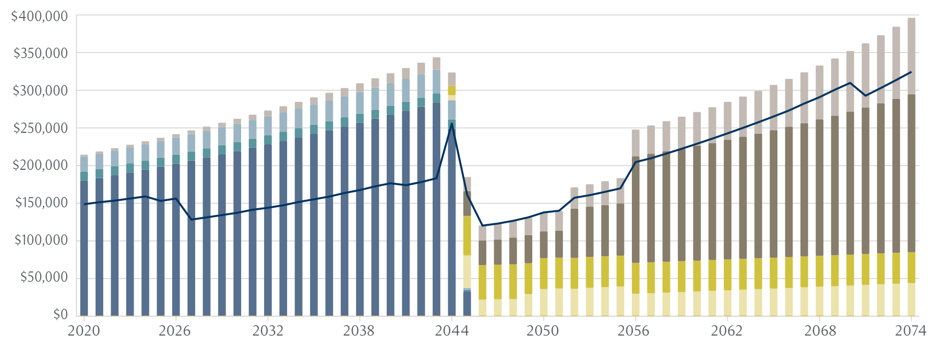
Current cash flow



2. If I live to be 90, will I have sufficient funds to maintain my current and/or desired lifestyle?

Projected Net Worth, Projected Income and Distribution & Projected Outflows – Based on the information provided, myGPS™ will project income, savings, taxes, expenses and the value of your assets into the future using a defined set of assumptions.

Projected income and distribution graph

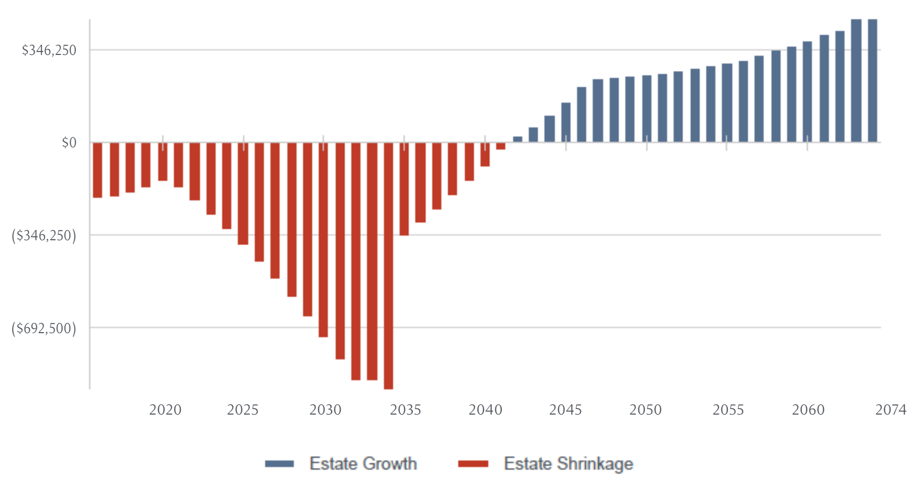


Based on the information provided, you may have sufficient investment capital to meet your anticipated future retirement income needs.

3. If I die tomorrow, will my family be sufficiently provided for financially?

Estate Impact Analysis and Life Insurance Analysis – Anticipating your future financial needs is a difficult task. Anticipating your family's future financial needs should you or your spouse die unexpectedly, is an even more difficult task. myGPS™ can help you identify any potential financial shortfalls should an unexpected tragedy strike you or your family.

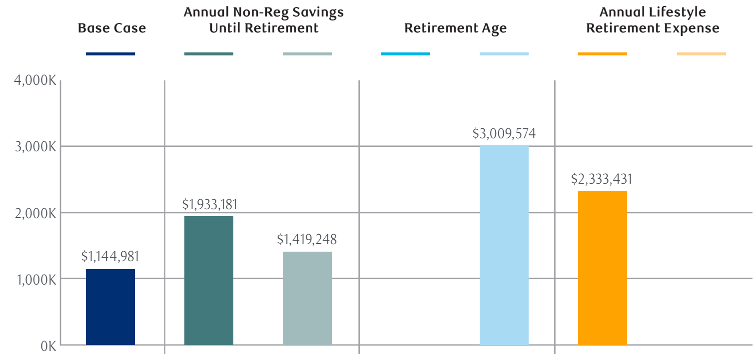
Estate impact analysis graph



4. How does changing my financial assumptions impact my future financial situation?

Retirement Analysis – It's impossible to know for certain what will happen tomorrow. To provide a financial projection, however, certain assumptions about what will happen in the economy have to be made. But what if some of those assumptions prove to be wrong? What if, for example, you were forced to retire early? Or perhaps you end up spending more in retirement. The myGPS™ Retirement Analysis allows you to independently change the assumptions you have made about the future to see how that change

Retirement analysis – things you control



	Base Case	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
Sensitivity		$15,000	$5,000	-3	2	-6.00%	8.00 %
Annual Savings	$10,000	$25,000	$15,000				
Retirement Age - Danilo Amanda	65 / 60			62 / 57	67 / 62		
Annual Retirement Expenses	$120,000					$112,800	$129,600
Total Investment Assets at Death	**$1,144,981**	**$1,933,181**	**$1,419,248**	**$0**	**$3,009,574**	**$2,333,431**	**$0**
Present Value	$322,394	$544,329	$399,620	$0	$847,411	$657,028	$0
Age When Assets Reach Zero				89/89			92/92

5. What can I do to ensure my financial goals and priorities become reality?

Wealth Management Opportunities – myGPS™ reports the key financial products, solutions and strategies, which are tailored to your financial situation and priorities, helping you to make the most of what you have – both now and in the future.

Wills and power of attorney

By planning for tomorrow today, you can retain more of your assets, protect your estate and leave a lasting legacy for your family. A common misconception is that only the wealthy need to concern themselves with estate planning. This misconception can result in significant unnecessary costs to your estate and additional burdens for survivors. In fact...

Opportunity is for illustrative purposes only and may not apply in all situations.

6. Could my business survive a major change or crisis?

Business Owner Opportunities – For business owners, the line between work and life is blurred. Business Owner Opportunities, outline solutions and strategies that can be pursued from the business side or from the personal side of your finances. The opportunities are tailored to your own situation and cover only those topics which apply to you, your business and your family – strategies designed to help keep you in control of your financial

Business succession planning

Business succession planning is the process of preparing, in advance, for the transfer of the ownership and management responsibilities of your business to someone else. When done properly, a succession plan helps to ensure that you can transition away from your business in an effective, satisfying, and confident manner. Not having a plan in place can cause major disruptions in the operation of your business as well as in your personal life. Many of these problems and disruptions may be avoided, or at least mitigated, by having a well thought out business succession plan in place before you need it.

Other benefits of a business succession plan may include:

- The minimization of tax...

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For more information about myGPS™, please contact us today.