The Financial Corner with Joanne Vesprini

A quarterly newsletter filled with practical wealth management advice that covers various aspects of financial well-being

Spring 2019

- Staying the Course

My thoughts,

The first quarter of 2019 has had its share of excitement; Brexit plan is still not approved, the yield curve started the year inverted, then flattened and then in March inverted in both the US and Canada, only to revert back to a flat curve in a matter of days, US posted record annual trade deficit for 2018 and the SNC Lavalin controversy and a devastating cyclone in Mozambique.

What is the market forecasting? Well the WTO (World Trade Organization) reported that world trade shrank by 0.3% in the fourth quarter of 2018, and is likely to grow by 2.6% in 2019. It indicated that trade has been weighed down by new tariffs and retaliatory measures, weaker economic growth, volatility in financial markets and tighter monetary measures in developed countries. They predict good trade volumes to grow more strongly in developing economies this year. Our global investment strategy committee sees global economic momentum waning with further deceleration likely in 2020 as economic slack has diminished and the US will encounter fiscal headwinds next year. They see the outlook for emerging markets slightly better but, here too they expect a moderate slowdown.

The main risks to the outlook are protectionism, Chinese growth and the US business cycle. The protectionism measures are showing up in slowing global trade. Moderating activity in China is a concern as the country is now the second-largest economy and biggest contributor to global growth. The US business cycle is in the late stage or possibly even 'end of cycle'.

What does all of this mean? It means volatility (market fluctuations) is likely to continue for the balance of 2019. It means some investors may want to consider scaling back equities and adding to government bonds as a measure to protect what they have.

As a client recently said to me "Based on what you are telling me, I would rather be two years early, than one week late". Some sage advice. So for some investors this move may be a permanent reduction in stock exposure and for others it may be a tactical opportunity. That will truly depend on your time horizon and wealth plan.

All the best,

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Staying the course

Strategies to help you maintain perspective through all types of markets

Here are five strategies that can help you reduce the impact of market fluctuations and help you reach your long-term goals:

1 Use time to your advantage | 2 Maintain discipline | 3 Regularly rebalance | 4 Diversify your portfolio | 5 Invest regularly

1 Use time to your advantage

Investors who maintain perspective and stay mindful of their investment time horizon have a better chance of reaching their investment goals than those who react to short-term market fluctuations.

Staying invested and trying not to “enter and exit” the markets when volatility increases can help reduce fluctuations over the long term. The longer an investment is held in a portfolio, the less chance it has of incurring a negative rate of return. This is because fluctuations in value tend to smooth out over time as the impact of market volatility diminishes. Moreover, years of strong equity markets can outweigh periods of decline, resulting in long-term returns that outperform other asset class.

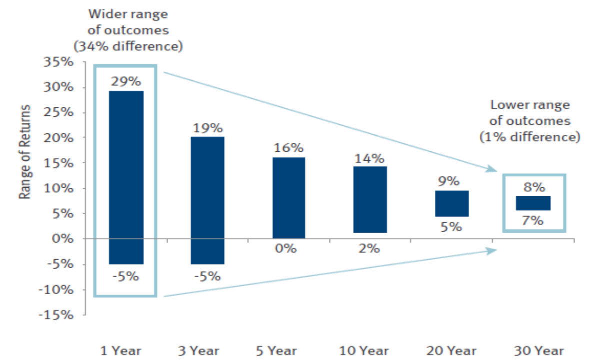
2 Maintain discipline

Reacting to short-term market “noise” by making dramatic portfolio changes, like moving in and out of the markets, can have a negative impact on achieving your long-term investment goals. History shows that by maintaining discipline and perspective during market downturns, patient investors have been rewarded when markets returned to an upward path.

As market volatility increases, investors have a natural tendency to want to move into safer investments, hoping to avoid further losses.

However, this move can result in needlessly locking in losses on investments that, given time, are likely to recover. A key to overcoming this tendency is to refrain from trying to time the market. Selling at the wrong time and missing just a few days of a market recovery could have a significant long-term impact on your portfolio

The volatility of a diversified portfolio decreases over time



Rolling 1-, 3-, 5-, 10-, 20- and 30-year average annual returns from January 1988 to December 2018.

Diversified Portfolio represented by 2% Cash, 43% Fixed Income, 19% Canadian Equities, 20% U.S. Equities and 16% International Equities. Cash represented by FTSE Canada 30 Day TBill Index; Fixed Income represented by FTSE Canada Universe Bond Index; Canadian Equities represented by S&P/TSX Composite Total Return Index; U.S. Equities represented by S&P 500 Total Return Index; International Equities represented by MSCI EAFE Net of Taxes Total Return Index.

Source: Bloomberg, RBC Global Asset Management.

Why it’s best to stay invested

Based on the annualized returns of the S&P/TSX Composite Index for 10 years, ending December 31, 2018.

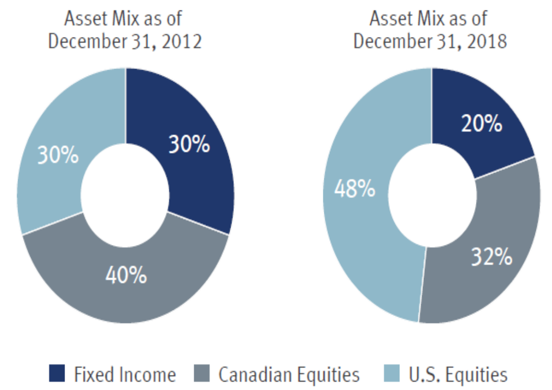
Source: Bloomberg, Morningstar, RBC Global Asset Management.

3 Regularly rebalance

Market fluctuations can often cause a shift in how your assets are divided in your portfolio (also known as asset mix drift), leading to a very different asset mix – and investment experience – than originally intended.

Rebalancing is one of the more effective ways to stay on track to reach your investment objectives. Not only does it help keep your portfolio aligned with your investment goals, it also gives you the opportunity to lock in gains from one asset class and redeploy them to other asset classes that have become relatively inexpensive. Investment options like RBC Portfolio Solutions are regularly rebalanced and adjusted tactically to take advantage of shorter-term opportunities without losing sight of the long-term strategic allocation.

The impact of portfolio drift



Canadian equities: S&P/TSX Composite Total Return Index. Fixed income: FTSE Canada Universe Bond Index. U.S. equities: S&P 500 Total Return Index. All performance in C$.

Source: RBC Global Asset Management.

4 Diversify your portfolio

Diversification, long considered the golden rule of investing, remains key to reducing portfolio volatility and risk.

Diversification means including in your portfolio a combination of investments from different asset classes, including cash, fixed income and equities, as well as different industry sectors, geographic areas and investment styles. Financial markets do not move in concert with one another and individual asset classes will perform differently in any given year. At any time, one asset class may be leading the market, while the others lag. Diversification can help reduce the impact of market volatility on your overall portfolio by combining assets that react differently to changing market conditions. As the chart to the right shows, it can be difficult to predict which asset classes will lead the market each year and which ones will underperform.

A strong case for diversifying your investment portfolio

2014	2015	2016	2017	2018
US Equities 24.4%	US Equities 20.8%	CDN Equities 21.1%	EM Equities 28.3%	US Equities 3.8%
Balanced 11.4%	INTL Equities 19.0%	US HY Bonds 14.3%	INTL Equities 16.8%	Global Bonds 1.9%
CDN Equities 10.6%	Balanced 6.5%	US Equities 8.6%	US Equities 14.1%	CDN Bonds 1.4%
Global Bonds 9.4%	CDN Bonds 3.5%	EM Equities 7.3%	CDN Equities 9.1%	Cash 1.3%
CDN Bonds 8.8%	EM Equities 2.0%	Balanced 6.5%	Balanced 8.8%	Balanced -1.3%
EM Equities 6.6%	Global Bonds 1.9%	Global Bonds 3.5%	US HY Bonds 6.4%	US HY Bonds -2.9%
US HY Bonds 4.3%	Cash 0.6%	CDN Bonds 1.7%	CDN Bonds 2.5%	INTL Equities -6.0%
INTL Equities 3.7%	US HY Bonds -2.7%	Cash 0.5%	Global Bonds 1.8%	EM Equities -6.9%
Cash 0.9%	CDN Equities -8.3%	INTL Equities -2.5%	Cash 0.6%	CDN Equities -8.9%

All performance is in C$.
Source: RBC Global Asset Management Inc. as of December 31, 2018.

Equities				Fixed income				
CDN Equities Canadian Equities	**US Equities** U.S. Equities	**INTL Equities** International Equities	**EM Equities** Emerging Market Equities	**CDN Bonds** Canadian Bonds	**US HY Bonds** U.S. High-Yield Bonds	**Global Bonds** Global Bonds	**Cash** Cash	**Balanced** Balanced Portfolio
S&P/TSX Composite Total Return Index	S&P 500 Total Return Index	MSCI EAFE Total Return Index	MSCI Emerging Markets Total Return Index	FTSE Canada Universe Bond Index	ICE BofAML US High-Yield BB-B Total Return Index	FTSE World Government Bond Total Return Index	FTSE Canada 30 Day TBill Index	55% Equity / 45% Fixed Income

According to one study, people typically touch their phones 2,617 times per day.... New York Times Feb 2018

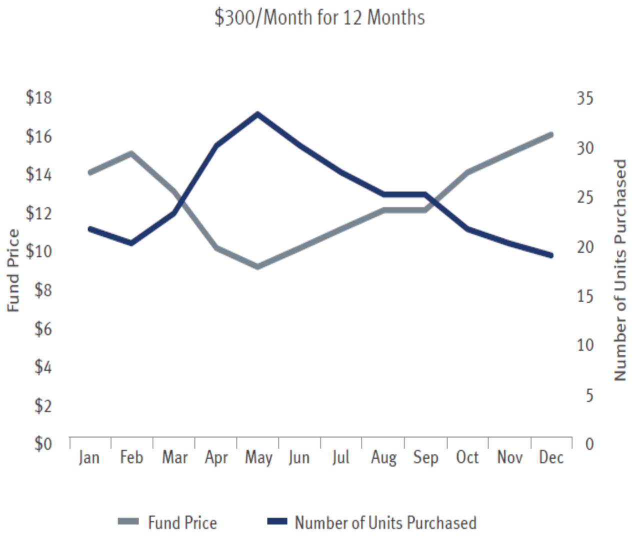
5 Invest regularly

Investing a fixed amount on a regular basis ensures that your investment strategy remains a priority through all types of market conditions.

By contributing smaller amounts of money to an investment plan on an ongoing basis (bi-weekly, monthly), regular investing acts as an anchor to help you maintain discipline when market conditions become volatile.

Regular investing also provides the opportunity to help smooth out returns over time, ultimately reducing overall portfolio volatility. This is achieved because investing a fixed dollar amount on a regular basis gives you a chance to buy more investment units when prices are low and fewer units when prices are high, thereby producing a more level investing experience over the long term.

Investing regularly in a fluctuating market



Source: RBC Global Asset Management Inc.

Balanced Portfolio represented by 2% Cash, 43% Fixed Income, 19% Canadian Equities, 20% U.S. Equities, 12% International Equities and 4% Emerging Market Equities.
An investment cannot be made directly into an index. The above does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower.

Past performance is not a guarantee of future results. All returns are annualized, and where applicable, compounded assuming reinvestment of all distributions. An investment cannot be made directly in an index and the above does not reflect costs, fees or taxes, which would lower returns. This has been provided by RBC Global Asset Management Inc. (RBC GAM) and is for informational purposes only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when printed. Information obtained from third parties is believed to be reliable but RBC GAM and its affiliates assume no responsibility for any errors or omissions or for any loss or damage suffered. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information. Please consult your advisor and read the prospectus or Fund Facts document before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. RBC Funds, BlueBay Funds and PH&N Funds are offered by RBC Global Asset Management Inc. and distributed through authorized dealers.

2018 was the 200th anniversary of the treadmill, which was originally a torture device for prisoners…. Express Dec 2017