

The Investment Advisor



Wealth Management
Dominion Securities

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Nymeyer-Scrimgeour Group of RBC Dominion Securities

Berny Nymeyer, BA, CIM, FCSI
Portfolio Manager & Vice President

**Darren Scrimgeour, B. Comm,
CIM, FMA, FCSI**
Portfolio Manager & Vice President

Jenny Bell
Associate Advisor

Ashley Symons
Associate Advisor

Lee Anne Nymeyer
Associate

Morgan Walpole
Assistant



RBC Dominion Securities
187 Ontario Street
Stratford, Ontario N5A 3H3

Tel: 519-271-4611
Tel: 1-800-265-4596

www.nymeyerscrimgeourgroup.com

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Currency Markets: The Canadian Dollar

Three cheers for the Canadian economy.

The Canadian economy has been the underdog among developed economies since oil prices peaked in 2014. Growth expectations were reduced based on the downturn in energy prices, and then reduced some more after the U.S. election, when President Trump barged in on the international scene with his declaration to tear up NAFTA. Yet the Canadian economy has turned out to be the “little engine that could.”

Canada, with a growth potential estimated at 1.4%, grew 3.6% in the first quarter of 2017 and 4.5% in the second. Jobs have been added at an average rate

of 32,000 in the 12 months ending July, a much faster pace than the 13,900 jobs added in 2016 and the 9,500 in 2015. Export volumes have risen in the energy, merchandise and industrial-machinery sectors. Alberta oil companies succeeded in reducing their operating and capital costs, and break-even production prices have fallen by over 25% since 2014. Canada’s blistering housing market, a perpetual source of worry, withstood a slew of macroprudential measures aimed at cooling it down, but with mortgage rates still low, household debts remain affordable.

July 2017 Interest-rate hike

The Bank of Canada (BOC) decided to

Currency Markets: The Canadian Dollar continued

take advantage of the window of opportunity to undo the interest-rate cuts taken as insurance in 2015. The investor community, especially foreigners, became quite weary of the Canadian housing market and the Canadian currency. Between early May and end of July, the Canadian dollar rose 10%. It was only the fourth move of such a magnitude in the past decade.

A Cheaper Canadian Dollar in the Forecast

The Canadian economy remains as dependent as ever on foreign funding. A cheaper Canadian dollar is one lure for foreign investors wanting to make direct

investments and buy real estate. When it comes to balancing the imbalances, it's not just the degree of weakness the currency reaches, but the length of time it spends at the weaker side of valuations that has to be considered. It requires time to make the business decisions that would lead to sustainable fuel for future currency strength. Our 12-month forecast for the loonie is C\$1.37.

“ The current backdrop leads us to believe the Canadian dollar will fall back to levels that compensate for Canada’s lack of competitiveness, and that the currency will have to remain weak for some time. ”

The Long Term Direction of the Canadian Dollar

This discussion brings us to our longer-term view on the direction of the Canadian dollar. We can imagine the development of quite a few positives. Weaker energy prices and restrictive environmental policies may accelerate efforts in Canada to develop alternative energy sources that are cleaner and cheaper than fossil fuels. Moreover, anti-immigration sentiment in the U.S. may result in an immigration dividend for Canadian cities. That’s the positive long-term scenario and we hope it will be the one to unfold.

Article by Dagmara Fijalkowski, MBA, CFA
Head, Global Fixed Income & Currencies, RBC GAM

Understanding the Impact of Currency

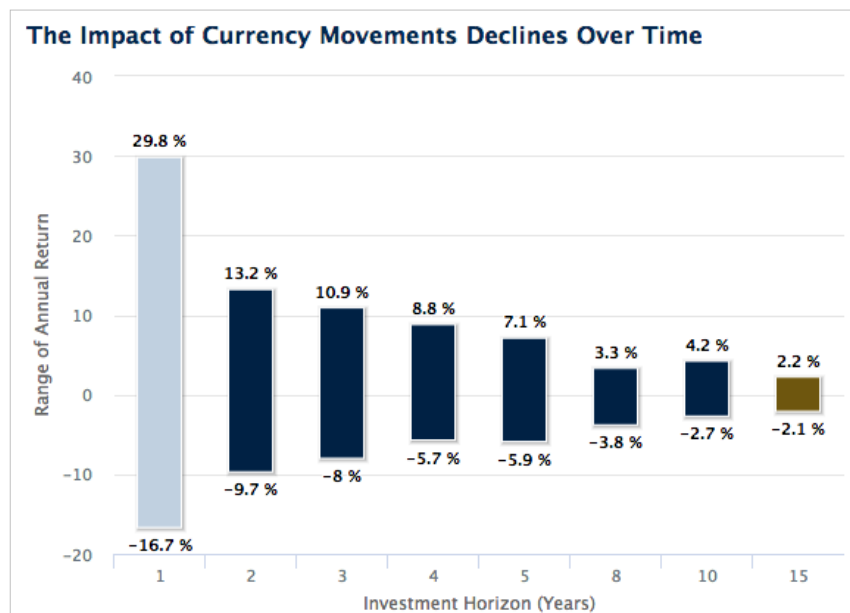
Currency movements and investment returns

Currency movements can present an element of uncertainty for Canadian investors holding foreign securities in their portfolios. A declining Canadian dollar can add to the returns of investments in foreign markets, while a soaring Canadian dollar can negatively

impact reported returns on foreign investments, particularly U.S. equity funds. Consider the impact that currency

can have on a U.S. stock's overall rate of return when purchased in Canadian dollars:

	At Time of Purchase	At Time of Sale	Result
Stock Price (US\$)	US\$100	US\$100	Actual stock price stays the same
Exchange Rate	CDN\$1.40 = US\$1	CDN\$1.25 = US\$1	Canadian dollar increases in value
Stock Price (CDN\$)	CDN\$140	CDN\$125	Stock price in CDN\$ declines



Exchange rates have less impact over the long term

The example above highlights the variability in short-term exchange rate movements and the impact this can have on investment returns. However, the chart to the right shows how currency movements tend to have minimal impact over the long term. In fact, over periods of 15 years or longer, the impact of exchanges between the Canadian dollar and the U.S. dollar on investment returns gets closer and closer to zero – an important point for long-term investors.

What's New at DS: Online Two-Way Messaging

DS Online has a new feature allowing you to send secure messages directly to our team using your online banking messaging centre.

With our new two-way messaging system, you can send attachments or request account transactions safely and without threat of hackers gaining access to your confidential conversations.

One of the best features of this new secure messaging system is that **the messages act as client authorization letters without the need for a physical signature**. For example, if you are travelling and need us to send funds to your bank account, your secure message will act as your authorization letter and secure signature. No need to track down a scanner or fax machine abroad to complete your request!

To send a secure message to our team please follow the steps below:

Log into your DS Online account. You will be directed to the Accounts Summary page where there is a section entitled 'Your Communications'. Click 'Send a Secure Message'.

Your secure message template will pop up. Select a team member from the drop down menu next to the "To" field, and fill in your Subject, Message, and include any attachments.

Click 'Send', and your message will be delivered to the selected team member's inbox. You will receive confirmation that

your message has been sent.

Any replies from our team will be delivered to your DS Online messaging centre. You can opt to receive e-mail notifications when you have a new message from our team to ensure nothing is missed.

If you use a secure message to request a fund transfer or other account transaction please reach out to our team first to ensure all the required details are included in your request.

Please note no trades may be requested via secure 2-way message – for this please call our office.

2017 Registered Account Reminders and Tax Considerations

As year-end approaches, it is important to implement common year-end tax planning strategies and maximize the capabilities of your registered accounts.

TFSA

If you have not yet done so, you can make your TFSA contribution for 2017 (up to \$5,500) and catch up on any unused contribution room from 2009-2016. Note that any amount you withdraw is added back to your available contribution room on January 1st of the following year; so if you are thinking of making a withdrawal from your TFSA in the near-term, consider doing so before December 31. This will allow you to recontribute the amount withdrawn as early as January 1, 2018 rather than having to wait until 2019 to recontribute.

RESP

By making RESP contributions, you may be eligible to receive the Canada Education Savings Grant (CESG). The government will match 20% of the first \$2,500 in annual contributions to a maximum grant of \$500 (\$2,500 x 20%) per beneficiary, per year. Each beneficiary can receive a lifetime maximum CESG of \$7,200. Consider contributing to the RESP by December 31st if you haven't maximized your contributions to take advantage of tax-deferred growth in the RESP. The income earned on the CESG and the contributions within the RESP can be

taxed in your child's or grandchild's hands, who likely has a lower marginal tax rate than you, when paid out to them.

RRSP

You have until March 1, 2018 to make a contribution to your RRSP or a spousal RRSP in order to be able to deduct the amount on your 2017 tax return. However, if you have contribution room, contributing to your RRSP early (i.e., before December 31, 2017) helps to maximize the tax-deferred growth in your plan which may increase your savings for retirement.

The Baking Times

The holiday season will soon be upon us, and what's better than a kitchen that smells of freshly baked cookies? Here is a recipe for our favourite chocolate-y, chewy, delectable festive treats.

Ingredients

- 1 Cup salted butter, softened to room temperature
- ½ Cup granulated sugar
- 1 Cup brown sugar, packed
- 2 eggs
- 1 Tbsp vanilla extract
- 2 Tbsp cream or milk
- 3 Cups all-purpose flour
- 1 ½ Tbsp cornstarch
- 1 tsp baking powder
- 1 tsp baking soda
- ½ tsp salt
- 1 Cup semi-sweet chocolate chips
- ½ Cup (or more) festive treats



Directions

1. Preheat oven to 375°F, and line 2 large baking sheets with parchment paper or silicone mats.
2. Using a hand mixer or a stand mixer fitted with paddle attachment, cream together the butter, granulated sugar, brown sugar, eggs, vanilla extract, and milk on medium/high until smooth, about 2 minutes. Set aside.
3. In a separate bowl, mix flour, cornstarch, baking powder, baking soda, and salt.
4. Add dry mix to wet ingredients and mix on low just until combined.
5. Stir in chocolate chips and festive treats.
6. Using a spoon or small ice cream scoop, spoon and roll out balls of dough, measuring roughly 1 heaping Tbsp of dough per cookie. Place the balls of dough about 2 inches apart on baking sheets.
7. Bake 9 minutes. The centres of the cookies will appear very soft when they come out of the oven. Let cool on baking sheet for 5 minutes. Transfer to wire rack to cool completely.



Team News

Our Team in the Community Gloria's Place – Stratford-Perth Human Society

On September 25, the Stratford RBC DS branch donated \$1,000 to Gloria's Place, the comprehensive animal welfare centre on Griffith Street in Stratford. The cheque was presented on the one-year anniversary of the centre's opening.



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