RBC Dominion Securities Inc.

Richard Rand's

Random Views

"Simplifying All The Financial Needs of Busy Families"

Wealth Management
Dominion Securities

May 2019

Rand Wealth Management

RBC Dominion Securities Inc.

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Today's Chuckle:

It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.

~ Mark Twain

Rand Wealth Management – May 2019

Hi Everyone,

Spring has sprung and the summer heat has started to show up finally! And now that we are past " Tax Time " again here in Canada, the news and markets turn to the usual items such as earnings, Brexit, Trump and now the new increased Tariffs on China. We will see how these all play out over the next few months and then onto the Federal Election in later October…..

As you have heard and seen, we have moved our offices just across the north arm of the Fraser River to the Marine Gateway building at 450 SW Marine Drive at Cambie Street and we would love to have you come and take a look when you have time.

The Markets:

Following a strong rebound at the beginning of the year, equity markets have shifted attention to slowing growth in the big three economies of the U.S., Europe and China, and the related downdraft in interest rates that was accompanied by an inversion of the Treasury yield curve – a cautionary signal. Markets are also contending with earnings growth and trade/tariff uncertainties. These risks are balanced out by dovish central bank policies and signs U.S. economic growth should hold, while trends in Europe and China should stabilize/improve later this year. In our view, equity market valuations remain reasonable, with most trading near or slightly below their long-term averages. Consensus earnings estimates are also realistic. While we would maintain overall equity exposure at the "market weight" (benchmark) level in our portfolios, vigilance is warranted.

Interest Rates / Fixed Income:

The U.S. Federal Reserve's (the Fed's) significant policy shift in March to no fed fund rate hikes (from two) in 2019 set a new path for global central banks. Global economic weakness is driving the broad move to "easy street" and concerns are mounting as benchmark yield curves invert. The Fed projects one rate hike in 2020, but implied probabilities indicate an 80% likelihood of a rate cut by January, and market expectations predict one rate cut per year from 2019-2021. There is the distinct possibility that rates could move lower, and we believe this makes "reinvestment risk" a potential issue for investors attracted by short-term rates equal to or exceeding long-term rates. As such, we maintain our "market weight" in fixed income, and recommend investors add duration with a focus on high-quality assets.

RBC Wealth Management
Global Portfolio Advisory Group

Recession-proof your portfolio with the three Rs

What do you do with your investment portfolio when you hear the infamous "R" word – recession? It's easy. Just follow the three Rs: review, rebalance and relax.

In recent months, economists have been cutting their growth forecasts for the Canadian and global economies. While evidence of a slowdown is mounting[1], it is notoriously difficult to predict – economists have failed to predict 148 of the last 150 recessions[2]. The dreaded "R-word", recession, is the economic term for two or more consecutive quarters of zero or negative economic growth (as measured by Gross Domestic Product). It is often trotted out when growth begins to moderate, but historically is rarely the outcome of such a slowdown, despite predictions to the contrary.

Recession: the nasty nine-letter word

Unfortunately, talking about a recession is one of the best ways to bring one about: hearing the "R" word, people begin to delay or abandon spending in anticipation of an economic slowdown[3]. This leads to a vicious circle: lower spending leads to lower business revenue, which leads to job losses, further worry, lower spending, more job losses and so on.

"R"-proofing your portfolio

Soaring or falling markets often generate strong emotional reactions, prompting investors to veer off course from their long-term plans. This can lead to common investment pitfalls like taking inappropriate risks, buying high and selling low, and moving to "the sidelines" (i.e. cash), thereby missing out when the markets recover.

Similarly, reacting to the "R" word by altering your investment plan is rarely the right move. Instead, investors would be well served to follow three other "R" words:

- **Review:** Wondering whether your goals are aligned with your investment portfolio's asset allocation and structure? Whether your risk tolerance is accurate?

  These are important questions and concerns to review with your advisor as your financial circumstances or goals change. But keep in mind that a recession is usually a short-term event, and that your investment portfolio usually reflects goals that stretch over a longer time horizon – so, changing it in response to short-term developments is rarely advisable.

- **Rebalance:** Your portfolio should be balanced in the right way to meet your goals and to reflect your appropriate risk tolerance. If your portfolio has drifted off-balance over time due to market movements or other factors, or your goals or circumstances have changed, speak to your advisor to review your portfolio to see if it needs to be rebalanced.

- **Relax:** Once you've reviewed your portfolio, and rebalanced as required, you can relax with confidence.

Remember, the average recession lasts six to nine months, and the impact is usually quick and transitory – making hasty, unwarranted changes to your portfolio is usually not.

To learn more, please contact us today.

[1] *Economic and Financial Market Outlook*, RBC Economics Research (March, 2019).
[2] *How Well Do Economists Forecast Recessions?*, International Monetary Fund, Zidong An; João Tovar Jalles; Prakash Loungani (March, 2018).
[3] *A reliable indicator of an imminent recession? Look to the pundits,* David Parkinson, The Globe & Mail (February, 2019).

Octo-investor

Managing multiple financial demands while trying to invest for future goals can leave you juggling competing priorities like an eight-armed mollusc. Fortunately, there are things you can do.

Canadians consistently state that they want to save to meet their long-term goals, especially their retirements. The problem? Too many competing demands on their limited resources require them to juggle multiple commitments today, forcing them to skimp on, delay or even skip altogether their long-term goals' savings plans.

How we spend: the eight-tentacled monster

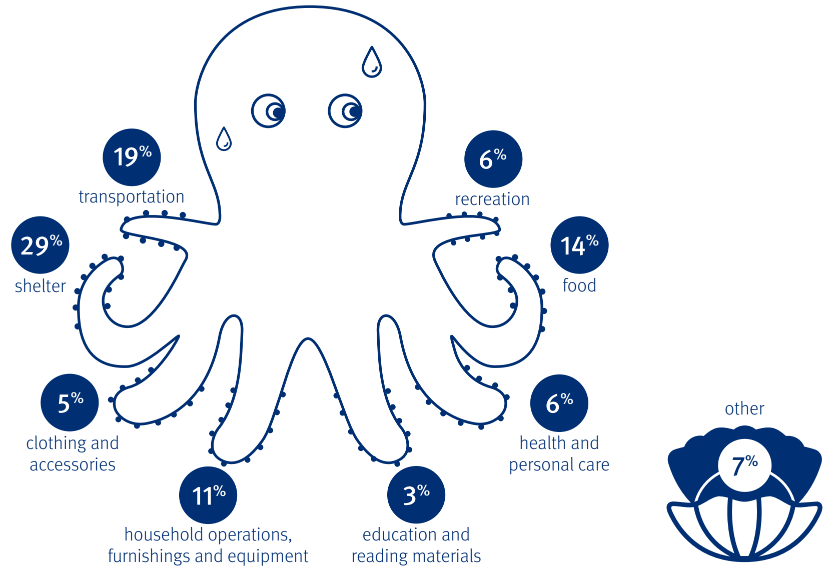
So, where does all the money go? More often than not, it's to meet life's necessities and immediate commitments. By percentage of income spent* these are the top eight areas:

1. Shelter – 29%
2. Transportation – 19%
3. Food – 14%
4. Household operations, furnishings and equipment – 11%
5. Recreation – 6%
6. Health and personal care – 6%
7. Clothing and accessories – 5%
8. Education and reading materials – 3%

Savings rates: the octopus in the room

Where do Canadians' savings land on the list? Though it varies from year-to-year, unfortunately, based on StatCan's most recent numbers, it's around 1.1%, and near an all-time low**. Yep, not great. But, despite multiple competing priorities, Canadians are still saving, even after direct contributions to government and company pension plans. That's commendable and, combined with the right strategies and tactics, can pay off over the long term.

Juggling commitments: Canadians' top eight spends* often leave little left over to invest



Even a little goes a long way

Fortunately, there are relatively simple steps to help save and build nest eggs to reach long-term goals:

1. **Review your budget:** Are you aware of everything you are spending money on? List your spending and see if there are ways to save money by eliminating items or choosing more sensible options. Even an extra $100 per month can make a huge difference over time (see Step 5 below).
2. **Enhance after-tax income:** Maximize your after-tax income by ensuring that you are using all of your allowable tax deductions and credits, and you are making proper use of government-sponsored tax-sheltered savings plans, such as RRSPs, RESPs and TFSAs.
3. **Establish a financial plan:** Start by setting out your short-, medium- and long-term goals. Setting out SMART goals – specific, measurable, attainable, relevant and time-bound – will allow you to determine what you need to save for, and to properly prioritize those goals.
4. **Start a regular investment plan:** Even a small amount invested early and regularly can, over time, grow into something significant. If it's automatically debited from your account? It's a simple "set it and forget it."
5. **Let the market help you:** Saving as little as an extra $100 a month over 30 years – or $36,000 – with an average annual compounded return of 6% can generate savings of nearly $100,000. $10 more a month? You can hit almost $108,000!

Today's octo-investor juggles multiple financial commitments. But by following these straightforward steps, you can get to where you need to go – without feeling lost at sea.

To learn more, please contact us today.

* *Survey of Household Spending*, Statistics Canada (2016).
** *Household savings rate*, Statistics Canada (Q4, 2018)
***Octopus icon made by Freepik from www.flaticon.com

Open House / “Grand Opening”

Invitation

We are pleased to invite you to visit our new **Marine Gateway** office for a casual office warming.

Date: Friday, June 7th, 2019

Time: 2:00pm - 4:00pm

Location: 16th Floor - 450 SW Marine Drive, Vancouver

Light refreshments provided.

Please RSVP by May 27th. Thank you.

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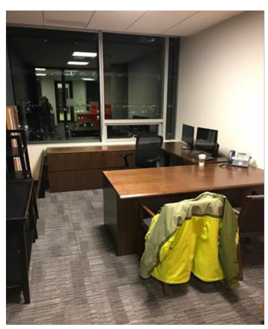
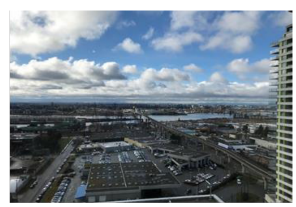
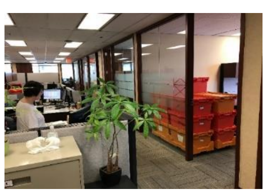
RICHMOND





MARINE GATEWAY



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