Wealth Management
Dominion Securities

Portfolio Advisor

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Around the world in 80 seconds

Canada

Resilient economic and job growth continues to keep the Bank of Canada (BoC) on its toes as it tries to gauge the need for more monetary policy tightening to ensure inflation remains on a downward trend. While inflation remains too elevated at 5% given the BoC's target of 2%, moderating wage pressure and increasing signs that consumer demand may be petering out suggest that interest rate increases are at or nearing an end. Recent U.S. and Swiss banking troubles are souring the positive tone towards equities that kicked off the year, with markets becoming increasingly cautious given the negative outlooks of companies across various sectors. With a recession likely in the months ahead, bond markets have rallied, providing an important bright spot for weary investors.

United States

The U.S. Federal Reserve's (Fed's) laser focus on bringing down decades-high inflation continued unabated, as the central bank raised its benchmark rate for a ninth time in a row in March, despite concerns that its increasingly hawkish monetary policy was causing substantial liquidity challenges in the banking system. The collapse of Silicon Valley Bank and Signature Bank sent a ripple of fear through markets. But the swift response of the Fed, the U.S. Treasury Department, regulators and other banks worked to shore up confidence in the sector and allayed worries that a broader crisis might unfold. While the economy and employment continued to defy the odds and show considerable strength, leading indicators suggest that the country is likely headed into recession in the second or third quarter of this year.

Europe

Despite fears that the region would be devastated by the loss of oil and natural gas supplies from Russia, Europe managed to navigate the worst months of winter and find new sources of supply. While the region continues to enjoy a resurgence in travel and tourism as COVID-19 worries fade, the region continues to adjust to sharply higher interest rates as central banks try to combat double-digit inflation. Offsetting the cloudier outlook and buoying financial markets are easing supply constraints, which allowed companies to work through order backlogs built during the pandemic. Banks' balance-sheet strength, as well as the firm backing of the European Central Bank and key governments, should prevent another Credit Suisse-type bank collapse.

Emerging markets

Emerging Markets (EM) rebounded from a poor 2022 to start the year, as optimism rose around the outlook for the global economy. China's lifting of its stringent COVID-19 restrictions and continued strength in the U.S. economy buoyed sentiment. But equity markets quickly surrendered their gains over worries that the Fed would need to rely on further interest rate hikes to quell persistent inflation. Despite the worries, Chinese markets outperformed thanks to surging domestic consumption, while India fell back on concerns that rising rates would dampen global growth. An important trend favouring EM stocks in the months ahead is the expected depreciation of the U.S. dollar, which is strongly associated with EM outperformance.

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

Playing "D" with dividends

Investing in dividend-paying securities is a great way to shore up your portfolio's defences during bumpy markets. They can provide consistent income, potentially enhancing portfolio protection and growth over time.

The last year has been a challenging one for investors. Both equity and fixed-income markets have experienced significant volatility driven by a rapid rise in interest rates to combat soaring and persistent inflation and an over-heating economy. More recently, markets having been wrestling with concerns that rising rates may cause an economic slowdown.

Playing D: Defence and experience win championships

No matter what market conditions you may face in the short term, dividend-paying stocks have been a mainstay for investors because they have historically demonstrated their ability to generate long-term positive and reliable returns. Especially in the Canadian equity market, dividend-payers are often well-established, soundly managed companies with stable businesses.

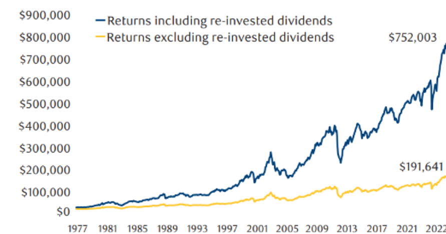
Whether you are seeking income to support your cash-flow needs in retirement, or you want to take advantage of growth through compounding the payments these stocks provide over time, or both, history has shown that dividend-paying stocks can help smooth returns and provide market-leading returns.

The dividend "defence": The smart choice for patient investors

As we have seen more recently, dividend-paying stocks can wilt in the face of increasingly higher interest rates and

Dividends have consistently and significantly contributed to total returns, year after year

Growth of $10,000 invested in S&P/TSX Composite Index



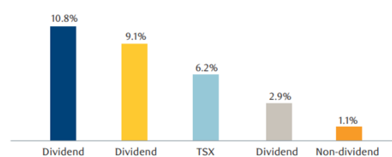
Source: Morningstar Direct: January 1977 – December 2022.
Returns including re-invested dividends = S&P/TSX Composite Total Return;
Returns excluding re-invested dividends = S&P/TSX Composite Price Appreciation.

bond yields. That's because comparatively fixed-income investments such as bonds provide attractive relative returns with less risk. But as the conditions for higher interest rates – usually rising inflation – fade, dividend-paying stocks historically regain their shine. Unlike fixed-income investments, dividend-paying stocks partake in the growth of a company's business over time, highlighting the double benefit of income and potential growth these stocks can provide.

Importantly, dividend-growing stocks – those stocks that see their dividends grow annually or at least regularly – are often able to offset, fully or partially, the corrosive effects of inflation, in turn helping investors to maintain the purchasing power of their dividend income, either to reinvest those dividends, or to use them for their specific cash-flow needs.

Dividend-paying stocks have outperformed*

Compound annual total returns (1986 - 2022)



Performance from October 1986 – December 2022. Equal Weighted Equity Only Total Return Indexes. Source: RBC Capital Markets Quantitative Research, RBC GAM. An investment cannot be made directly into an index. The graph 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.

The ultimate team player: Dividend-paying stocks can smooth portfolio performance

Dividend-paying stocks can also help to reduce the volatility of a portfolio, while at the same time provide downside protection.

Again, it is often the case that dividend-payers – and especially those that consistently grow their dividends over time – are "blue chip" companies that are well-managed, have strong fundamentals, and can afford to pay out a significant amount of their income due to their stability and financial strength.

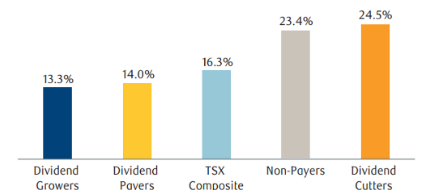
In summary, dividends offer three key benefits:

First, they can generate income from your portfolio to support your cash-flow needs. Second, they offer historically solid performance to help grow your portfolio. And, third, they can help reduce the volatility of your overall portfolio.

The well-known truism in sports is that defence and experience wins championships – talk to us about how we can bolster your portfolio defences, while helping to add to your investment "Win" column.

Dividend-paying stocks have displayed lower volatility*

Annualized volatility (1986 - 2022)



Performance from October 1986 – December 2022. Equal Weighted Equity Only Total Return Indexes. Source: RBC Capital Markets Quantitative Research, RBC GAM. An investment cannot be made directly into an index. The graph 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. Standard deviation is a commonly used measure of risk and is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation shows how much the return on an investment is deviating from expected normal returns. A higher standard deviation indicates a greater variability in investment performance.

*Dividend Growers, Payers, Cutters and Non-Payers are determined annually. Growers had a positive 12-month change in dividends paid; Payers paid dividends; Cutters had a negative 12-month change in dividends paid; Non-payers did not pay a dividend.

Getting your investment groove back

Getting back into the market during a period of uncertainty can be tough. Leveraging the power of regular investing and dollar-cost averaging (DCA) can help ease the process.

Going through a difficult and volatile period for markets where both equity and bond values have declined can be psychologically difficult as an investor. And, it is natural to find a sense of security by moving to the sidelines and into cash or short-term investments, such as GICs or money market funds. And, if that is appropriate given your investor profile and investment plan, that can make sense, especially as interest rates and bond yields have begun to offer a meaningful return for the first time in years.

However, if your goal is long-term growth in order to achieve a specific goal such as retirement, deviating from your investment plan simply to avoid short-term volatility can have a meaningfully negative impact on your ability to achieve your goals.

Find your groove – one step at a time

Most investors understand the historically predicated investment principle that it is not timing the market but time IN the market – that allows one to benefit from the long-term growth that a properly balanced portfolio can potentially achieve. But the actual process of getting back into the market can be difficult and seem overwhelming to an investor. One of the simplest yet most effective ways of easing back into the market is to establish or re-institute a regular investment plan. That way, you have a disciplined and consistent plan to regularly purchase smaller and manageable amounts, gradually rebuilding your portfolio over time.

Two groovy benefits:

1. Less freaking out

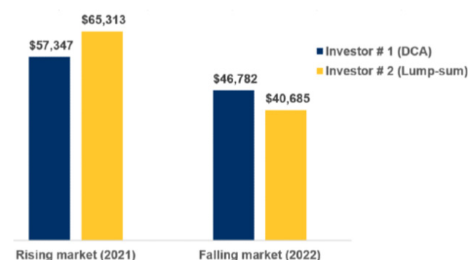
Regular investing works well because you can set up the plan and the funds are regularly withdrawn and invested into your portfolio. Investors tend to "set it and forget it", which can allow them to benefit from nullifying or reducing their emotional responses to short-term market gyrations by removing the choice of whether to invest or not (although there is no lock-in period, and an investor can stop their regular investment plan at any time).

2. More growing your investments

This approach also benefits from the fact that, rather than trying to time one's investment purchases, investors can engage in dollar-cost averaging, or DCA, allowing them to buy more units or shares of an investment when the price is lower, and fewer when it is higher. This takes market timing out of the equation, and especially in falling or flat markets, it can work better than "going all in" with a lump sum.

To illustrate, in the following scenario two investors are considering how to invest at the start of the last two years:

- Each investor has $50,000 in cash to invest.
- Investor # 1 prefers a DCA strategy and decides to deploy the cash across 12 equal monthly installments.
- Investor # 2 prefers to deploy the entire sum of cash on the first day of the year.



Source: RBC GAM. Morningstar. S&P 500 TR USD. Rising Market: Jan 4, 2021 – Dec 31, 2021. Falling market: Jan 3, 2022 –Dec 30, 2022.

While a lump sum approach works better in a rising market, it can also be overwhelming and emotionally difficult for an investor to re-enter uncertain markets in this way – especially if they are worried about asset prices falling substantially. Regular investing and benefiting from DCA can ease this concern, allowing for a gradual and measured re-entry into the market.

We can help you set up the right "re-entry" plan – talk to us today about getting your investment groove back.

Building on strong foundations

The newly launched tax-free First Home Savings Account (FHSA) is a great way to build up savings towards the cost of purchasing a first home. Whether for you, or to assist an adult child or grandchild on their journey to realizing on the dream of home ownership, the FHSA combines unique benefits with the some of the best advantages offered by RRSPs and TFSAs.

FHSA overview

Here is a quick overview of the new FHSA, how it works and how it can benefit eligible savers:

Who is eligible:

- Must be at least 18 years old (age of majority in province/territory of residence)
- Must be a resident of Canada with a Social Insurance Number
- Must be a first -time home buyer - neither they nor their spouse/common-law partner have owned a home in which they lived in the year the account is opened or in the 4 previous calendar years
- Note: Contribution room only starts to accumulate once an account is opened (unlike RRSP or TFSA)

Money in:

- Contribution limit of $8,000 per year
  - Unused room can be carried forward and used in future years, up to an annual maximum contribution of $16,000
- Lifetime Maximum of $40,000
- Unlike RRSP, limits are not based on earned income
- Contributions are tax deductible like an RRSP, and deductions can be carried forward indefinitely
- Can hold more than one FHSA, but combined contributions to all accounts cannot exceed limits
- Individual accounts only – no joint
- Parents cannot open and 'own' an account for a child
- Can transfer tax-free from a RRSP to FHSA, but transfer is not tax-deductible and uses FHSA room

Investment Grows Tax-Free (like RRSP or TFSA)

Money Out:

- Funds can be withdrawn tax-free like a TFSA, if proceeds are used for a qualifying home purchase and owner is a first-time home buyer at the time of withdrawal
- Must have an agreement to buy or build a home by Oct. 1 of the year following the withdrawal
- If funds are not used for a home purchase, they can:
  - Transfer all or part of the balance to RRSP/RRIF at any time without impacting RRSP contribution room
  - Withdraw all or part for any other purpose and be subject to tax as income
- No minimum holding period – could contribute one day and withdraw the following and still deduct contribution
- Plan must be closed by Dec 31 of the year following the withdrawal

- FHSA must be used to buy a home by Dec. 31st of the 15th anniversary of the account opening, or by Dec. 31 of the year the owner turns 71
- Beneficiary or successor annuitant can be appointed (outside of QC). Recipient receives funds tax-free with no impact on their FHSA contribution room if they are eligible for FHSA, or they can transfer to their RRSP/RRIF or withdraw and pay tax
- Can be combined with RRSP Home Buyer's Plan, but unlike HBP, FHSA withdrawals do not have to be repaid
- Spouses/common-law partners can combine HBP and FHSA withdrawals to maximize down-payment (i.e. $35,000 per individual from HBP + total balance of each individual's FHSA)

What's the difference between the new FHSA and existing TFSA and RRSP?

If you want to know how the new FHSA compares to the new(ish) Tax-free Savings Account (TFSA) and/or the well-established first-time Homebuyers' Plan within a Registered Retirement Savings Account (RRSP), check out our easy-to-follow breakdown at https://www.rbcroyalbank.com/investments/tfsa-vs-rrsp-fhsa.html.

Quick tip: Carry forward contribution room only starts accumulating after you open a FHSA — so considering opening one this year, even if you don't make a contribution rigth away.

Investing in your future: Build your house on rock, not on sand

According to the federal government, the following investments are eligible to be held in an FHSA:

- Cash
- Savings deposits
- Stocks
- Options
- Government and Corporate bonds
- Exchange-Traded Funds (ETFs)
- Securities listed on a designated stock exchange
- Mutual Funds
- GICs

However, it is important to note that, if your investment time horizon is less than at least three years, it is generally recommended not to invest in assets that may be subject to market volatility and/or which do not guarantee your principal. While longer-term investments can help build wealth over time, a focus on preserving wealth for shorter-term time horizons is strongly recommended. This would include such products as GICs, savings deposits and money-market funds, to name a few.

Whether you're saving for your first home – or helping your family members save for their first home – we can help. Talk to us today about opening your FHSA.

Quick tip: Have family members who don't have a first home yet? You can give funds to your family members, like your children and grandschildren, to open their own FHSAs.

Natural selection

Investing according to your values and/or with an eye to sustainability continues to grow in popularity. To help ensure you are selecting the right approach for you and your portfolio, here are some of the most important terms to know.

Investing according to one's values or moral beliefs has been around for centuries. In the 18th century, the "Quakers" were the first known socially responsible investors with their decision not to invest in businesses involved in the slave trade. More recently, the rise in popularity of Responsible Investing (RI) has been remarkable, with 2021 seeing nearly US$700 billion pouring into RI funds globally – a record and a sharp increase over 2020's US$542 billion and 2019's US$285 billion.[1] As of 2020, over US$35 trillion was invested in RI, with Canada having the highest proportion of sustainable investment assets globally.[2]

Green shoots are maturing

The integration of Environmental, Social and Governance (ESG) principles into the investment process in one form or another is growing rapidly. In a 2021 survey of investors (FR) conducted by the Responsible Investment Association, 73% of respondents reported an interest in RI, a significant increase over 2018 when 60% of respondents expressed the same.[3]

Importantly, RI was of particular significance to younger investors (18-35 years old), with 80% of this group expressing an interest in RI.[4] This same age group covers a significant portion of the Millennial generation, a demographic that stands to inherit over US$30 trillion in the decades to come.[5]

Clearing the smog on RI

But while many investors wish to align their portfolio holdings in such a way as to reflect their concerns over specific or general ESG risks, their ethical or moral views, or because they believe companies that pursue strong ESG policies tend to provide better long-term returns, one of the biggest challenges is ensuring that investors understand the key terminology under the RI "canopy".

What is Responsible Investing?

RI is an umbrella term encompassing several different approaches used to deliberately incorporate environmental, social and governance (ESG) considerations into an investment portfolio.

What are ESG factors?

Environmental
- climate change
- greenhouse gas (GHG) emissions
- resource depletion, including water
- waste and pollution
- deforestation

Social
- working conditions, including modern slavery and child labour
- impact on local communities, including Indigenous communities
- conflict
- health and safety
- employee relations and diversity

Governance
- executive pay
- bribery and corruption
- political lobbying and donations
- board diversity and structure
- tax strategy

What are the top three investment approaches for investors to incorporate ESG?

1. ESG integration

Environmental, social and governance (ESG) integration seeks companies with leading environmental, social and governance metrics compared to their peers to add to their portfolio.

2. Exclusion or screening (positive and negative), thematic and socially responsible investing (SRI)

Based on ESG criteria, investors screen specific companies or sectors in (positive screening) or out (exclusionary screening) of a portfolio. As forms of screening, thematic investing and SRI (also known as values-based or ethical investing) involve investors who are looking to make a positive change by aligning their personal values with their investment choices. This encompasses both negative and positive screening of companies, industries or sectors to make a financial influence that match their values.

3. Impact investing

Here an investor is hoping first and foremost to generate social or environmental impact. And, while an impact investor also wants to earn a return on their investment, they may be willing to take a capital loss as long as some tangible result for the investment can be seen. For example, an investor could invest in a project that assists underserved communities through support for low- and moderate-income home buyers, affordable rental housing units, small business administration loans and economic development.

No matter how you choose to manage your portfolio, the increasing popularity of doing so based on ESG principles is proving RI is here to stay. With an ever-growing number of investment options available to do so, investing in alignment with your values is easier than ever. Talk to us about how we can help.

Please note that, like any type of investing, environmental, social and governance (ESG) and responsible investing involves risks, including possible loss of principal. This material has been prepared without regard to the individual financial circumstances, investment objectives, and ESG criteria or other personal preferences of persons who receive it.

Sources
[1] Refinitiv Lipper, 2022.
[2] Global Sustainable Investment Review. Global Sustainable Investment Alliance (2020).
[3,4] Investor Opinion Survey, Responsible Investment Association (2020).
[5] The great generational wealth transfer is under way. The Globe and Mail (March 12, 2021).

The five-finger [cyber] discount – Five common cyber scams and how to avoid them

As our online lives continue to expand, cybercriminals are also increasing their efforts. To fight back, here are five common cyber scams to be aware of, and how to avoid them.

In the pre-Internet world, the most common method of theft – whether of information or material goods – was to steal with one's own hands. That meant having to be physically present to commit the crime, having to navigate locked doors, cameras, trip lights and maybe even some guard dogs – and, if it was something particularly valuable, perhaps even "crack" (open) a safe. Even the "five-finger discount", the old term used to describe shoplifting, at least required the thief to make the effort to head out to the mall or store to ply their nefarious trade.

Not anymore. These days, just as the Internet has made our lives easier in innumerable ways, so it has for thieves, or more appropriately, cybercriminals. In fact, today's modern thief need no longer even leave their couch.

"Be on the lookout for five suspects..."

Fortunately, there are ways to fight back, while helping to protect you, your family and your business against these increasingly clever and sly cyber operators.

According to our RBC Cybersecurity experts, here are five common scams to be on the lookout for, and how you can help defend against them:

Phishing/smishing

The scam: Phishing is a common online scam designed to trick victims into disclosing personal or financial information for the purpose of financial fraud or identity theft.

The approach: In a phishing scam, victims receive an unsolicited email that appears to be from a legitimate company. A typical phishing email will persuade you to click on a link that takes you to a fake website where you will be asked for personal information such as your credit card number, account number, passwords, date of birth, driver's licence number and/or other personal and sensitive information. While you may think you are giving your information to a valid company, you are providing it to a fraudster.

Important update: A newer version of phishing is "smishing," where the fraudster tries to trick people into giving away sensitive information over text messages. Smishing attacks have become more common given the open and response rates to text messages. While only 20 per cent of emails are opened, and six per cent are replied to (as people have become more suspicious of email scams), those numbers rise to 90 per cent and 45 per cent for text/SMS messages.*

How to protect yourself:

- Take six seconds: If you receive an urgent message to update your account or take advantage of a time-limited offer, take six seconds to ask yourself if it seems suspicious. Be skeptical!
- Call the bank or retailer directly. Legitimate companies and financial institutions don't request account updates or login information via email or text. It's always a good idea to confirm any requests received this way by calling the organization's official number (i.e., the one on their website, not the number contained in the message!).
- Avoid clicking any links in unsolicited messages. These could be traps to install malware or capture personal data.

Crypto scams

The scam: According to the U.S. Federal Trade Commission, since 2021 it is estimated that over $1 billion has been lost in crypto scams in North America alone. The scam starts when a victim receives an unsolicited message over text, email or social media or when they click on a crypto trading ad online. In most cases, the investment opportunities offer higher than normal returns and come with a sense of urgency, so you don't "miss out" on the opportunity.

The approach: The victim is often asked to communicate through another messaging platform, such as WhatsApp or SMS, and deceived into sending money for the investment. Often, the investor loses most — if not all — of their money.

How to protect yourself:

- If you receive a message from a trusted friend about investing in cryptocurrency, reach out to them through a different communication method to confirm it's really them.
- Don't click on links from suspicious emails, text or social media messages.
- Don't feel pressured to invest quickly. Take some time to understand where your money is going.

Online purchase scams

The scam/the approach: Online scams are nothing new, so if anything, they are getting more sophisticated and clever than ever before. The most common type of these scams is "spoofing" a legitimate company's look and website – in other words, scammers set up fake retailer websites that look like real online retail stores in these cases.

How to protect yourself:

- Buy from companies or individuals you know by reputation or from past experience.
- Make sure you're still on a reputable website when you go to check out and haven't been redirected to a new page.
- Be more cautious with sellers located far away or that don't have many reviews.
- Use a credit card when shopping online since most come with fraud protection and other security guarantees.
- Regularly check your credit card statements for frequent or unknown charges.

Home improvement scams

The scam: In a home improvement scam, a fraudster acts as a contractor and offers low prices or a short time frame for renovations.

The approach: These fake contractors use high-pressure sales tactics and ask for money upfront, then deliver substandard or no work.

How to protect yourself:

- Do your research on any potential contractors and gather information about them before making any payments.
- Don't agree to cash deals or give in to high-pressure sales tactics.
- Ask for references and check them out.

Advance fee loans

The scam: In an advance fee loan scam, fraudsters promise they'll get you a loan, credit card or access to credit — even if you have a low credit score. But you must pay upfront before receiving any funds.

The approach: The most common approach is that the criminal "lender" contacts you over the phone or you respond to an online advertisement. These lenders target individuals with bad credit and who have limited options for a traditional loan. These scam companies sometimes use terminology such as "administration fee" or "credit protection" to disguise the illegal charges. Then, once the advance fee is paid, the lender usually disappears.

How to protect yourself:

- If you're asked to pay an upfront fee before getting a loan, it's a signal to hang up or walk away.
- Don't make payments via e-transfer, wire transfer or cryptocurrency to an individual that you do not know — this is often a sign of fraudulent activity.

While there is a myriad of various cyber and other scams out there, many if not most can be detected by just taking a moment and considering what's been offered and how. To learn more about cybercrime and how to fight back by protecting you, your family and your business, check out the RBC Cybersecurity site (https://www.rbc.com/cyber-security/), and stay informed on the latest scams and how to avoid them.

* Tap Into The Marketing Power of SMS, Gartner Research.

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