Wealth Management
Dominion Securities

Portfolio Advisor

Summer 2022

Tony Grandi Critical Path Wealth Management
of RBC Dominion Securities
1922 Wyandotte St. East
Windsor, ON N8Y 1E4
Fax: 519-252-3672
Toll free: 1 800-265-0890
www.yourcriticalpath.com

Tony Grandi, B.Comm. (Hons), BA, CIM
Senior Portfolio Manager
& Wealth Advisor
Tel: 519-252-3690
tony.grandi@rbc.com

Kelly van Middelkoop
Associate Wealth Advisor
Tel: 519-252-3650
kelly.vanmiddelkoop@rbc.com

Agata Stepien, B.Comm.(Hons)
Associate
Tel: 519-252-3487
agata.stepien@rbc.com

Around the world

Canada

Rising costs have begun to nibble into Canada's economic growth, and inflation expectations are starting to change the purchasing behaviours of consumers and businesses. This is an important development, as reining in but not completely stifling the post-pandemic spending splurge on at first goods, and more recently services, such as travel and leisure, are likely to help corral price pressures over time. The Bank of Canada has moved emphatically to a tightening bias, rapidly reducing the extraordinary monetary policy stimulus that it implemented to combat the pandemic-induced economic downturn. Despite the mostly negative news and increasingly poor consumer confidence, employment and spending remain strong, defying – for now – rising calls for a recession in the not-to-distant future.

United States

With few tailwinds to sustain it, the post-COVID-19 economic surge in the world's largest economy is beginning to show signs of petering out, while the cost of living, especially for gas, shelter and food, continues to rise at an alarming rate. Inflation rose almost 9% year-over-year in May, the fastest rate in over 40 years. This has led to a rapid pivot in U.S. monetary policy, as the U.S. Federal Reserve tries to stem inflation while avoiding a "hard landing" for the economy. The central bank is likely to continue to increase rates aggressively over the coming months. Bond yields have soared and stock prices have fallen, with the S&P 500 Index recently following the NASDAQ Index into bear-market territory.

Europe

Sharply rising inflation is rapidly reversing the economic bounce the region was experiencing as it emerged from the COVID-19 pandemic. The war in Ukraine is having a particularly painful impact on Europe, with an increasingly-embargoed Russia, the dominant oil and natural gas supplier in the region, threatening to cut off supply to NATO-member nations such as Germany, Poland and France, resulting in surging energy costs. The European Central Bank, faced with sharply rising bond yields and inflation, is threading a precarious path to avoid stagflation, as the economic picture dims and growth falls. To help counter the impact of energy-price inflation and rising interest rates, the EU is ramping up fiscal support, and it is likely that investments in defense and energy independence will rise.

Emerging markets

Emerging market (EM) equities have traded largely in line with those in developed markets, as EM were supported by stronger corporate cash flows, resilient currencies and attractive valuations. Excluding Russia, China was the weakest-performing emerging market, while commodity-exporting EM countries posted positive results. Asian equities pulled back over the quarter, with a significant divergence in performance among markets. We expect Chinese growth to keep decelerating until the fourth quarter of this year, while across Asia, an export downturn is likely starting, as the impact of the Russia-Ukraine war has weakened global demand. Inflation is likely to rise further in the region.

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

RBC Dominion Securities Inc.

Pack your bear spray! Important reminders to avoid a bear-market clawing

2022 has been a tough year for investors so far, with recession and inflation worries combining to push the financial markets – both bonds and equities – into sharply negative territory. The mighty S&P 500 Index, the leading barometer for equities, and the technology-laden NASDAQ, both reached official bear market territory this year, while the S&P/TSX Composite Index, Canada's leading equity index, has hit correction territory, meaning a downturn of 10% or more.

Ursas major and minor: The anatomy of bear markets

"Bear market" is an investment term used to describe the market's performance when it has fallen by 20% or more from its most recent high. While each bear market is different, here are some of their key features:

- Over the last 60 years, equities have experienced 10 distinct bear market events.
- On average, they tend to occur every seven years.
- More than 70% of bear markets have preceded an economic downturn.
- Over the last century, the average bear market has lasted just over two and half years, and the median. peak-to-bottom decline over that period was just over 35%.
- The last bear market occurred in 2020 – the COVID Crash – and it was the quickest one on record, dropping 20% in one month, but recovering within six months.

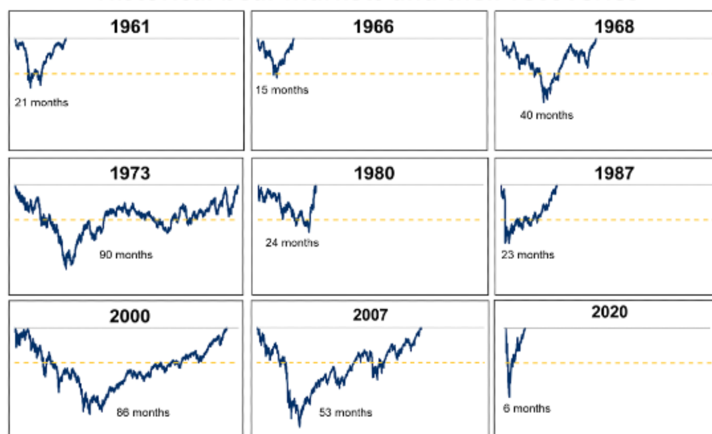
Grin and bear it: Important reminders to survive bear market "attacks"

Suffering through a bear market is no easy task for investors, and some make the mistake of veering off of their long-term investment plans. To help keep you on track, here are three important reminders about staying invested in bear markets:

- **Keep the bear repellent close – the bear will eventually appear:** History has shown us that bear markets are a fact of investing, and can be expected to arise every six to seven years. It's impossible to know when they will arise, or when they will end – each one will be different. As such, market timing is, as always, ill-advised.
- **Ignoring the bees for the honey – bear markets can be positive for long-term investors:** For investors with long-term investment horizons and appropriate risk profiles, the lower asset prices offered up by bear markets can pay off over the long term into stronger returns. Leveraging strategies like regular investing and dollar-cost averaging (DCA) can even help you benefit from the opportunities that bear markets can create, allowing you to "buy low" and more when markets are behaving irrationally.
- **"Play dead" – stick to your investment plan:** In moments of fear and crisis, it's challenging to avoid falling prey to poor decision making. The old adage to "play dead" if confronted by a bear can be helpful: in short, don't run or make any rash moves. Having a well-constructed, personalized and risk appropriate plan is critical.

The advice of an advisor can guide you through these challenging times – and help you avoid the long-term scars of a bear market mauling. Talk to us today about how we can help.

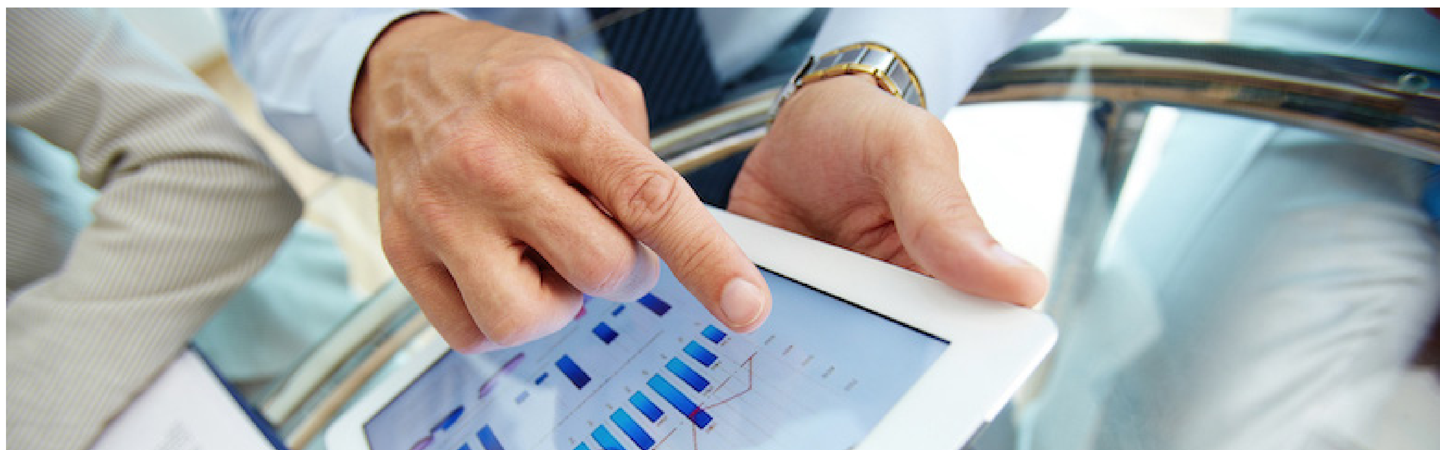
Historical bear markets and their recoveries



Source: RBC GAM, Bloomberg. S&P 500 Index. Bear markets labelled based on year of index peak before decline. Charts scaled to depth of the deepest bear market (which occurred during the global financial crisis as markets fell over 56% from October 9, 2007 to March 9, 2009) and based on the longest bear market and recovery which spanned 1899 trading days from January 11, 1973 to July 17, 1980. Yellow line represents 20% decline threshold. You cannot invest directly into an index.

Stagflation and four ways to mitigate its impact

As inflation soars and economic growth stalls, the growing threat of "stagflation" is hitting the economy and investment markets hard. The term stagflation combines "stagnant" with "inflation" – and here's what you need to know about it.



As the pandemic has wound down, demand for goods and services has skyrocketed. In the wake of reopening economies across the globe, the pull of surging demand has strained global supply chains, and geopolitical events have exacerbated the issue. In response, inflation has soared, forcing central banks to raise interest rates to quell demand, increasing the threat of an economic slowdown – or even recession.

Increasing stagflationary conditions impact investors too: rising interest rates ripple into rising bond yields, hitting bond prices (bond prices and yields move inversely). Stocks fall sharply as well, as investors increasingly anticipate companies will struggle to generate sustained profits in these challenging conditions.

Sticking the landing: Aiming for soft, bracing for hard

Unfortunately, the accepted remedy to tame inflation often only adds to the pain, at least in the short run. In response to rising prices, central banks must raise interest rates, in turn increasing borrowing costs for businesses and consumers, and further crimping their dwindling resources. While this can stifle demand and gradually inflation, it can also stifle economic growth. If the central banks cause a recession, especially a painful one, that's called a "hard landing." If they manage to finesse a slowdown but it doesn't result in a recession – or at least a prolonged and nasty one – that's called a "soft landing."

Fortunately, there is still time for central bankers to engineer a soft landing and avoid a hard one, and a recession, especially a painful one, is not a forgone conclusion.

Stagflation mitigation

Here are four things to consider in light of the increasingly stagflationary environment:

- **Debt:** If borrowing costs are rising, it can be timely to review your debt service costs, and to consider reducing debt or deferring purchases that may increase it.
- **Investment portfolio:** The market's negative response to it can provide a "stress test" and an opportunity to review your portfolio with your advisor to determine whether it requires any rebalancing. Taking advantage of lower asset prices can also be a smart strategy when markets are stressed.
- **Quality:** In times of economic and market stress, certain types of assets tend to perform better –or "less worse" – than others. A focus on assets that are considered high quality because they can consistently perform through challenging economic circumstances can help reduce volatility.
- **Fixed income:** When interest rates rise, the bond market typically sees yields soar and prices fall. On the positive side, fixed-interest-rate investments (e.g., GICs) tend to see their returns rise, while newly higher yields on bonds offer the opportunity to "reset" coupon payments at higher levels, creating the opportunity to enhance fixed-income returns over the longer term.

If you have questions about stagflation and its potential impact on your portfolio and investment plan, speak to us today.

Fortifying your retirement income: The three-bucket approach

The three-bucket approach is a straight-forward strategy to help retired and cash-flow-focused investors sustain their investment income and preserve their wealth through all market conditions.

Market volatility often strikes fear into the hearts' of retirees and those that rely on their investment portfolios to meet or augment their cash flow needs. Pressure on assets prices during market downturns can sometimes result in negative outcomes for such investors, including:

- When the need arises to sell assets to generate cash flow or to meet spending needs, it may be at a loss or at a poor valuation level.
- Fixed income yields and rates can fall as central banks move to cut interest rates to spur economic growth, in turn reducing the income investors' can expect to generate through bond coupon payments and/or GIC interest.
- Companies that pay dividends and distributions may need to reduce or suspend those payments in the face of challenging economic circumstances, putting income-focused investors' cash flow at further risk of reduction.

In short, periods of heightened market volatility are an important reminder of the need to ensure that portfolios of cash-flow-focused investors are structured to meet the challenges of volatile or even extended bear markets. This can help prevent a need to change their lifestyles in the face of shrinking cash flow – or worse, face the ultimate risk of outliving their savings.

Shoring up your defences

Fortunately, there is a way to help ease income-focused investors' minds when faced with the twin threat of lower asset prices and portfolio cash-flow generation during volatile markets: the three-bucket approach. So long as it's aligned to their investment objectives and suitable given their risk profile, retirees and other cash-flow-focused investors may wish to leverage this approach to help ensure that they have enough income to provide for their short-term needs, while still growing their portfolio over the medium- and long-term:

Easy as 1-2-3:

An example of the three-bucket strategy using an initial investment of $1 million to generate required annual income of $50,000

The three buckets:

- Short term – Income (1-5 years): The short-term bucket holds cash and short-term investments for cash-flow withdrawals and emergency funds, while also helping to reduce the impact of short-term market volatility on the portfolio.
- Medium term – Buffer (6-10 years): Holds income-generating investments, including low-risk, low-volatility equities for stable capital gains. This bucket serves as a buffer between the cash bucket and the long-term growth bucket.
- Long term – Growth (10+ years): Holds growth-oriented equity funds, which are more volatile but offer higher potential for capital growth to sustain the portfolio for the later years of retirement.

The best defence is a good offence

Longer term, preserving your wealth benefits from a degree of growth in order to protect your portfolio from the impact of ongoing cash-flow demands, as well as the ravages of inflation. To do so, investors can use a well-structured and considered strategy that, if properly aligned to their investment objectives and risk profile, should help them ensure they meet their long-term cash-flow needs while still preserving their retirement nest egg.

Speak to us today to discuss how we can help you achieve your cash flow and investment needs with risk-appropriate strategies like the three-bucket approach.

Planning with care today for tomorrow's cost of care

Understanding and preparing for the costs of care in our elder years is a critically important element to one's investment planning today. Here are five things that can help.

Canadians continue to extend their life spans, with the average age of death today reaching 82 years, or 84 for women and 80 for men.[1] Advances in health care and drug treatments, along with healthier lifestyle choices (e.g., exercise, eating better, not smoking) are mostly to thank for this phenomenon.[2] And our lifespans are expected to keep getting longer still, with living into one's nineties or beyond no longer an extreme outlier.[3]

A compelling reason to care about one's care

While an increasing number of Canadians will be blessed with longevity, the older we get the more risk there is that we will encounter illnesses and even incapacitation. We more often than not require the most care in the last years of our lives. Unfortunately, this is likely to be the time when we are most vulnerable and dependent on others to deliver that care.

How we want to live in our elder years – and, in fact, can afford to live – is therefore an increasingly critical component of investment planning, as most of us will require our savings to meet those costs. With assisted living at home or at a private residential care facility costing as much as $100,000+ per year, how one plans for these costs today is increasingly important.

Living at home

Renovation costs (to help make your home accessible and safe)

Cost for a straight stair lift to help minimize falls: **$3,000+**[4]

Average cost to remodel a bathroom for grab bars, walk-in baths, etc.: **$8,000-$14,000**[5]

+

Personal support worker

For one year at $35/hour, eight hours a day (not including HST/ GST & excluding overnight care and statutory holidays): **$102,200 /annum**[6]

Private residential care[6]

Independent living per month (depending on location): **$2,000/month or $24,000/year**

Assisted living per month: **$2,500 - $9,000/ month OR $30,000 - $108,000/year**

Publicly funded long-term care facility[6]

Co-payment for long stay private room at facility in Ontario (costs vary by province): **$32,420/year**

"An ounce of prevention is worth a pound of cure."

Preparing today for the eventuality of the challenges of aging and its associated costs of care can help you keep your options open as to how you would prefer to live in your elder years. Here are five things that can help:

1. **Set your time horizon to 100:** As Canadians live longer, the need to fund one's retirement and especially elder years when the cost of care peaks, is getting longer, too. When it comes to thinking about an investment portfolio, it ideally should meet your needs for your entire life, not just to your retirement date.
2. **Leverage the power of equities:** A risk-appropriate and properly balanced portfolio that leverages the long-term historic power of equities to grow your wealth over time can help offset the corrosive effects of inflation, the drawdowns needed to fund your cash flow, and unexpected costs in your later years.
3. **Generate cash flow:** The more a portfolio can generate cash flow from various sources – interest payments, dividends, distributions, return of capital – can help fund your care costs over time, without the need to draw down on your capital.
4. **Establish a Health Care Directive:** Letting your loved ones know how and where you wish to be cared for is important, and will remove unnecessary concern for them if you become incapacitated.
5. **Research your care options:** While most Canadians want to live in their home until they pass away[7], it is not the only option, nor necessarily the optimal one. Research care options before deciding on what's right for you, and realistically align your choice to your financial means.

Talk to us about how we can help you plan with care today for the costs of care tomorrow.

Sources

[1] Statistics Canada, "Life expectancy and other elements of the complete life table, three-year estimates, Canada, all provinces except Prince Edward Island" (January, 2022).

[2] Public Health Agency of Canada, "How healthy are Canadians?" (April, 2017).

[3] FP Canada – Standards Council, "Projection Assumption Guidelines" (April, 2021).

[4] https://silvercross.com/stair-lifts/ (accessed June 16, 2022)

[5] Bryan Baeumler, HGTV (2021).

[6] Source: Ontario Ministry of Health and Long Term Care. As of July, 2019.

[7] National Institute of Ageing (NIA)/TELUS Health Survey (2020)

Hands up! This is a robbery...digital style!

Protecting your business from cybercrimes such as ransomware and data theft is now a reality for every company that has an internet connection. Increasingly, more effective and frequent, ransomware in particular is the Digital Age's newest form of a shakedown, and it is costing businesses billions in payoffs to cyber criminals. Beyond the cost, ransomware puts a business' operations – and even existence – in jeopardy. Here are five things to consider to help prepare for and protect yourself from attack.

The ransomware (virtual) crime spree

The Internet has revolutionized the way we live, communicate and transact with each other, and its benefits are innumerable and ever-growing. But the other side of the Internet revolution is the potential for cybercrime and exploitation. For businesses, the costs of a malicious cyberattack can be devastating – not only monetarily, but reputationally and operationally, too.

According to the Canadian Centre for Cyber Security (https://www.cyber.gc.ca/en), ransomware is the most common cyber threat facing Canadian businesses today, and it is on the rise. Ransomware "is a type of malware that ultimately denies a user's or business' access to files or systems until a sum of money is paid. Ransomware can use your network to spread to all connected devices." The attacks can impact a company's "core business downtime, [and result in] permanent data loss, intellectual property theft, privacy breaches, reputational damage and expensive recovery costs."

Building your cyber defences

A recent RBC Small Business Poll* (https://www.rbc.com/newsroom/news/article.html?article=125516) revealed that, while striving to improve, the level of unpreparedness of Canadian businesses is acute, despite the fact that almost 50% reported that "they anticipate becoming a victim of a cybercrime in the next 12 months." As well, 40% identified that "having devices infected by a virus or malware is now perceived as their biggest threat, ranking higher than falling victim to an online scam or fraud (24%), or property damage (24%)."

According to cyber security experts at RBC Royal Bank, here are five things that businesses can consider doing to help prepare for and mitigate a ransomware attack:

1. Prioritizing measures including multi-factor authentication, mandatory employee training and limited authority to install software.
2. Thinking through risks and creating a prioritized list of possible cyber events unique to the organization.
3. Identifying key stakeholders and putting together a list of key contact information, both technical and non-technical persons in the event their services or contact is needed.
4. Outlining an engagement procedure, which will guide the organization's plan in response to a cyber event, detailing how events will be handled and communicated.
5. Creating a communications template to address impacted parties in the event of a cyber security incident.

Helping you build and protect your personal and business wealth

For many businesses, the costs and infrastructure required to protect themselves from ransomware and other cyberattacks is difficult to afford and support. To help, RBC created the Cyber Security Awareness and Education Website (https://www.rbc.com/cyber-security/), which is designed to support business owners with the latest in cyber security insights, best practices, tips, and guidelines.

Talk to us today about how we can help ensure that your transactions and interactions with RBC Dominion Securities are safe and secure from cyber criminals.

***The RBC 2021 Cyber Security Poll.** Conducted by Ipsos Canada from August 24-27, 2021. Released October 18, 2021.

This information is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ® / ™ Trademark(s) of Royal Bank of Canada. Used under licence. 22_90081_1400 (07/2022)