RBC Dominion Securities Inc.

Portfolio Advisor

Wealth Management
Dominion Securities

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Tony Grandi Critical Path Wealth Management
RBC Dominion Securities

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

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

Nancy Krestick
Associate
nancy.krestick@rbc.com
519-252-3487

Market commentary

So goes the economy, so goes the equity market. This is our long-standing investment philosophy, and it comes in handy now as multiple uncertainties within and outside of financial markets vie for investors' attention. Amidst the noise, we remain focused on U.S. and global economic momentum. They have slowed, validating the range-bound pattern most markets have delivered for many months, but we are not yet seeing signs that a recession is imminent.

Until recession risks escalate, we believe equities deserve the benefit of the doubt and recommend holding global equity exposure at the long-term strategic recommended level, which equates to a "market weight" or benchmark position. While we think it's too early to become overtly defensive by trimming equities below that level, it is prudent to upgrade the quality of holdings.

Fixed income

The U.S. Federal Reserve (the "Fed") is poised to begin reducing interest rates in the coming months, and, in our opinion, a 0.5% cut will occur at the Fed's July meeting. And as the Fed moves to preempt potential economic weakness, we believe an additional 0.25% cut is likely this fall. Other major central banks are likely to follow suit with "dovish" policies (i.e., lower interest rates to encourage economic growth). Sovereign yields in Europe and Japan have fallen deeper into negative territory, and the 10-year Treasury yield has slipped below 2%. We feel easier Fed policy, ongoing trade uncertainty, and slow growth mean the Treasury yield has settled into a 1.75%–2.00% range.

We maintain our Market Weight positioning in global fixed income, and even with the feeding frenzy for yield across all fixed-income sectors, we continue to recommend investors upgrade to higher-quality corporate bonds as we approach the later stages of the credit cycle.

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

RBC Wealth Management
Global Portfolio Advisory Group

Fortifying your portfolio

As the longest bull market in history ages, and the economy shows signs of being in the late-cycle stage of its life, many investors are wondering if it's time to take a more defensive stance in their portfolios.

Since the post-Financial Crisis bottom in March of 2009, the benchmark S&P 500 Index has soared, delivering a more than 350% return for investors*. And, during most of the past decade, Canadians have enjoyed a recession-free economic expansion. In short, it's been a decade of wealth creation the likes of which most of us have never seen.

When volatility struck markets last fall, many investors began to wonder if the "bull of all bulls" was finally ready to head out to pasture. Indeed, many of the commonly accepted indicators of an aging economic cycle, from soaring equity market prices and rising volatility, to strong employment, GDP growth and disappearing economic slack, are evident. More market volatility and a potential economic slowdown could be in the offing as we progress to, and through, the end-of-cycle economic stage.

Ready for a siege: building up your portfolio's parapets

No economic outlook is a certainty, and making wholesale changes to your portfolio in anticipation of potential economic or market conditions is rarely advisable. Usually, the only reason to make significant changes to your portfolio is if your life circumstances change. However, there are strategies to shore up your defences if your portfolio looks to be under siege:

Duration

Shorten the duration (i.e., a measure of the sensitivity of the price of a bond to a change in interest rates) of your economically sensitive, corporate fixed-income holdings; maintain the duration of your sovereign debt holdings to take advantage of their hedging effects in volatile times.

Quality

Ensure your portfolio contains quality, blue-chip equities (i.e., reasonable price-earnings ratios, strong balance sheets, high earnings quality, etc.), while remaining mindful of valuations. Look internationally to economies earlier in the cycle than Canada and the U.S. to find better performing markets when domestic markets are challenged. On the fixed-income side, focus on higher-rated corporate and government bonds.

Dividend payers

Long-term, consistent dividend-payers with a track record of increasing those payouts make for an excellent "defensive wall" when markets become challenged to generate capital returns, with the added bonus of allowing you to reinvest the cash flow into under-priced assets.

Defensive sectors

Consider shifting equity holdings to more defensive sectors that tend to fare better during times of economic stress and have a low correlation to the economic growth cycle, including Consumer Staples and Utilities, which benefit from consistent and largely unchanging demand regardless of economic conditions.

Strong walls to stand on guard for thee

We continually monitor market and economic conditions, and will make appropriate recommendations or changes to your portfolio to reflect evolving opportunities and challenges. Using strategic walls, a well-fortified portfolio that reflects your investment objectives and your established risk tolerance will help you ride out all market and economic circumstances.

For more information, or to determine if any of the strategies discussed here are appropriate for you, please, contact us.

*From March, 2009 to May, 2019. Includes reinvested dividends. Return in local currency.
Source: RBC Global Asset Management.

The Canadian (Pipe?) Dream

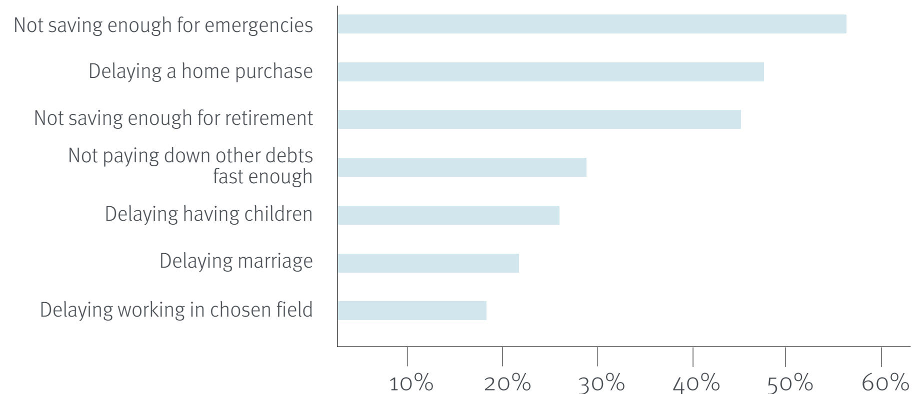
In this land, there are few limits to what you can achieve – that's the Canadian Dream. At least, that's what it was before mounting student debt and delayed life goals turned it into more of a pipe dream for many young Canadians. Fortunately, education planning can help.

In the past, the "life script" generally went like this: graduate, get a job, buy a house, start a family. But with 67%[1] of new post-secondary graduates now entering the workforce burdened with debt, these important life events are being delayed.

However, if they desire a higher income to help achieve their Canadian Dream, young Canadians need an university education, even if that means delaying important life goals. According to a Statistics Canada study[2] that followed a group of Canadian youth from the early 1990s, women with a bachelor's degree earned $442,000 more in average cumulative earnings through their thirties and forties as compared to women with a high school diploma. For men, the difference was $700,000.

Life goals impacted due to student debt

% of university graduate survey respondents



Source: Ipsos on behalf on BDO, RBC Economic Research, September 2017

Keeping the dream alive

Family has a key role to play in helping young Canadians afford the $19,498.75 average annual cost of one full-year of study[3]. And, fortunately, there are several strategies to help families fund education costs for younger family members. The key is to start early.

Registered Education Savings Plans (RESPs)

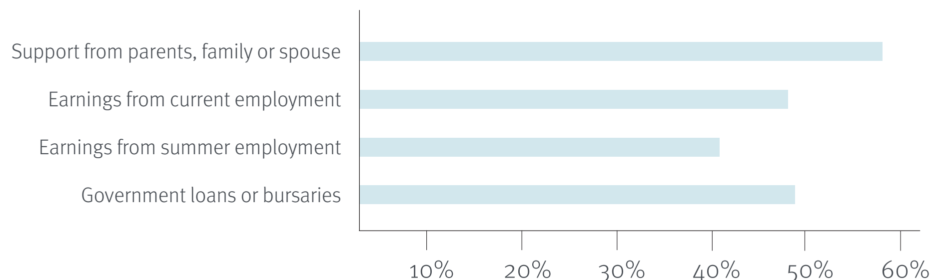
An RESP is a tax-deferred savings plan designed to allow you (the subscriber or contributor) to save for a beneficiary's post-secondary education. All the interest, dividends, capital gains and government incentives in the plan grow on a tax-deferred basis. Also, the federal government matches a portion of your contributions. No matter what your family income, the government pays a basic Canada Education Savings Grant (CESG) of 20% on the first $2,500 of annual contributions to a maximum annual CESG of $500 for each beneficiary. The lifetime limit is $7,200 per beneficiary.

Living trusts

A living trust (or *inter-vivos* trust) can be created during your lifetime and can be a powerful tool, depending on your circumstances, as it can allow you to dictate how much you give, to whom, and for what. For example, say you want to financially support grandchildren's post-secondary costs to alleviate the burden of debt post-graduation. You can set up a living trust with the terms drawn up according to your wishes, which may be that the assets are to be used exclusively for funding educational pursuits. When your grandchildren receive their grants, any capital appreciation or other income earned in the trust will be taxed in their hands, which presumably would be at a much lower tax bracket.

To learn more, please contact us today.

How students fund post-secondary education



Source: Maclean's, Canadian University Survey Consortium, April 2018.

Notes:
[1] Ipsos (for BDO and RBC Economic Research), Three in Four (77%) Canadian Graduates Under 40 Regret Taking on Student Debt (September 2017).
[2] Statistics Canada and RBC Economics, The Cost of Credentials (June 2018).
[3] Maclean's, The cost of a Canadian university education in six charts (April, 2018).

Portfolio, sweet portfolio

Many Canadians are counting on their "home, sweet home" to help fund their retirement years. But it's also important to consider your investment portfolio.

A tale of five cities (and an equity market)
The S&P/TSX Composite Total Return Index vs. select Canadian real estate markets

Based on an initial $300,000 investment with no leverage over the past 25 years

Market	End value	Rate of return
S&P/TSX Composite Total Return Index	$2,410,431	8.3%
Toronto	$1,170,577	5.4%
Vancouver	$1,125,502	5.2%
Montreal*	$1,021,881	4.8%
Calgary	$983,057	4.7%
National avg.	$931,739	4.5%
Halifax	$831,220	4.0%

Sources: All data as of December 31, 2018. Housing price data compiled by RBC Global Asset Management Inc. from Canadian Real Estate Association (CREA). Source of the S&P/TSX Composite Total Return Index is RBC Global Asset Management Inc. All returns are annualized, and where applicable, compounded assuming reinvestment of all distributions.
*Please note that data for the Montreal market is not seasonally adjusted.

Despite soaring home prices over the last few decades, many Canadians might be surprised to learn that, over the last 25 years, the average long-term growth of home prices in the country's major markets has been far less than the growth of the country's leading equity market index. That's not an argument against home ownership. Instead, it serves as a good reminder that diversifying your investments to ensure you take advantage of the long-term growth potential of equities is a smart way to get you "home, sweet home" to your retirement goals.

A house is a home, not (just) an investment

For most Canadians, a home is the single largest and most significant purchase they will ever make in their lives. In doing so, they leverage their often small amount of equity (usually as little as 5% to 25% of the purchase price) and cover the rest by taking out a mortgage from the bank.

Of course, that's one of the most significant and wonderful aspects of home ownership: you can enjoy the purchase immediately, while paying the cost of it over a very long period of time, often as long as 25 years. From Day 1, you can take advantage of the leverage of paying only a fraction of the cost to live in a property that can be worth as much as 20 times that down payment. And, each mortgage payment you make builds your equity, taking you one step closer to full ownership.

The unloved but (hopefully) appreciated investment portfolio

Unlike a home, an investment portfolio doesn't allow us to enjoy the experience of bringing our first child home to it; of watching the height measurements of our kids grow ever higher on the kitchen wall; or, to remember the many anniversaries and birthdays we've shared with our families and friends over the years in it.

Without an emotional attachment and real enjoyment being derived from it, we tend not to love or care about our portfolios in the same way. But if we can't exactly love them, we can – and should – nonetheless appreciate them for the wealth that they can create for us, wealth that ultimately works to support the achievement of our goals. Because, despite our widespread belief that our home values grow faster than our investments, as the chart to the left shows, the equity market's long-term return significantly outpaces that of homes in all major markets across the country – in some cases as much as doubling it.

Foundations of wealth

Your principal residence is where your heart is – but shouldn't necessarily be seen as your sole "principle" investment. Seeing your home this way can ignore significant risks, including the high costs of ownership (e.g., financing, taxes, upkeep and repairs). As well, a home is an illiquid asset, which can represent a real risk if you need to remove your equity at a certain time. Equities, while historically providing stronger long-term returns, also have their own associated risks and costs which need to be considered, including volatility. But, when taken together, the virtual "bricks and mortar" of your investment portfolio can work together with the actual bricks and mortar of your home to build the foundations of your wealth.

To learn more, please contact us today.

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