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Portfolio Advisor

Wealth Management
Dominion Securities

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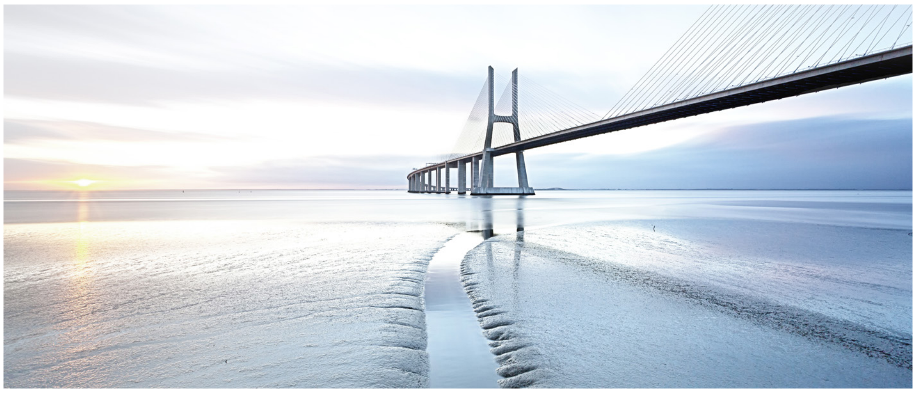
Market commentary

With a further uptick in December, global equities returned handsome gains in 2017. We expect 2018 to be another rewarding year, but it would be asking a lot for the path to be as "wobble-free" as the year just past was for most major markets. Setbacks cannot be ruled out.



Corporate earnings remain robust in most regions, and consensus expectations are being upgraded in Japan and the U.S., thanks to better growth prospects and tax reform, respectively. Valuations, though less attractive than they have been, could extend further in some regions, with mainland Chinese stocks being a significant exception. We suggest investors continue to hold a modest overweight position in global equities.

Fixed income

The U.S. yield curve flattening continued to be a topic of focus as the 10-year Treasury yield closed the year much where it had started, while short-term rates have been propped up by expectations of Fed rate hikes in 2018. Avoiding an outright inversion of the curve, often a precursor of recessions in past cycles, should limit the Fed to two rate hikes in 2018 versus the three currently expected by the market, in our view.

Elsewhere, while economies are growing, inflation remains subdued in most cases, and we expect central banks to merely reduce accommodation (Europe), or keep rates on hold (Canada, the U.K.).

Nevertheless, with valuations less attractive, we prefer to maintain our underweight stance in this asset class.

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

RBC Wealth Management
Global Portfolio Advisory Group

Disruptive technology: Growth, opportunity and risk

There's barely an industry or part of our lives that hasn't been affected by new technology. Smart phones, online shopping, artificial intelligence and self-driving cars are just a few of the seemingly endless ways technology has changed the way we live, work and communicate.

From an investor standpoint, there isn't really a period of time that investors can look back on and say "We've seen this exact thing before." Yet, virtually every industry has been affected by disruptive technology at some point in the past, and in general, disruption ultimately drives growth and brings new opportunity, but it can also bring an element of risk that must be accounted for in portfolios.

Disruption drives growth

It's easy to see the downside risks of technological disruption. Certain jobs are often lost and industries can disappear entirely. However, more often than not, disruption leads to new services and products, better efficiencies, and from an investor standpoint, helps drive long-term growth.

For example, over the last 150 years, the farming industry has seen horses replace manpower, tractors and mechanization replace horses, and farming techniques, year-round growing and fertilizers improve yields per acre. Today, these disruptions help Canadian farms produce more food than ever, including nearly 40 times more wheat and 44 times more potatoes than they did in 1867[1]. Today's Canadian farmers are also producing a wider variety of foods than ever before, and doing so with tremendous efficiency when compared to the past.

Disruption drives opportunity

While farming has not escaped the downside of disruption – lost farm jobs – technological advances have helped spawn and grow industries in areas such as food processing, storage and transportation, equipment manufacturing and fertilizer production.

Today, virtually every industry is undergoing change due to technological disruption, including:

- Automobiles – driverless and electric cars
- Retail – ecommerce and the decline of the mall
- Energy – renewables and batteries
- Finance – fintech, robo-advisers, peer-to-peer lending and crowd sourcing

The sharing economy and internet mobility are also affecting everything from travel, hotels and restaurants to the real estate, media and communication industries.

Protecting your portfolio

For investors, diversification remains the first line of defence when navigating an evolving market. Headline-grabbing stocks, or investing in a single disruptive sector, such as marijuana or bitcoin, may put your portfolio at unnecessary risk. On a similar note, failing to adjust your portfolio as your blue-chip companies of yesterday are faced with major disruption, could result in an equally unnecessary risk.

In addition to diversification, investors may consider avoiding industries which face too many disruptive headwinds, or step lightly into them. It will also continue to be important to invest in the highest-quality companies, rather than the "hottest" stocks or industries. Finally, quality management today must also include those who are open to new ways of competing and prepared to transform their business to remain competitive.

For more information, please ask us for a copy of our Global Insight article on disruptive technologies: Fast track to the future.

1. Statscan, 2016

Five of life's big changes worth planning for

Virtually everyone will go through several financial stages in life. Some expected, some unexpected. While most people understand the basic need to save and plan for retirement, making key decisions when life takes a turn, or being prepared for life's unexpected events are both important keys to a lifetime of financial peace of mind.

1. Career change and sabbaticals

Forty-plus year career paths don't always follow a straight line. Whether it's back to school, taking time off to care for family, for personal development or to take a shot at starting up your own business, being financially prepared for a break or change in your career path can go a long way to helping make it happen when desired, or reduce the financial stress when it's unexpected.

2. Making financial decisions on your own

Whether you become unexpectedly single or divorced, or your partner unexpectedly (or expectedly) passes away, financial stress can come from several directions. Do you have the full picture of your financial situation? Will you be able to handle household expenses or be prepared to make financial decisions on your own? In the case of the death of your partner, do you know what steps need to be taken with respect to settling their estate, or who can help? It can be uncomfortable to talk finances when it comes to these often unexpected situations, but they represent some of the most important reasons to have a comprehensive financial plan – that both you and your partner understand.

3. Business contingency and succession planning

Businesses succeed not because their owners are lucky to avoid disasters but because they were prepared for unplanned events. Contingency planning can help protect your business and your family when the unexpected occurs. A properly structured plan will generally include a leadership succession plan, an updated Will and estate plan, life insurance for liquidity protection and a detailed shareholders' agreement. It's also never too early to start business succession planning. Whether you plan to pass your business to the next generation or sell it outright, setting yourself and your business up for future success will require time, effort and a comprehensive plan.

4. Income loss and increased expenses due to poor health

As people live longer and for long periods of time with health issues requiring additional care or financial support, income loss or ever-rising expenses due to health problems have become risks worth planning for. Living benefits insurance is a type of coverage that pays a benefit to you while you're alive. Three distinct solutions – disability, critical illness and long-term care insurance – help ensure your financial stability by covering a wide range of expenses or providing income replacement due to injury, illness or aging.

5. Creating a lasting family legacy

Passing on wealth to loved ones is an important goal for many people. Your Will defines who will inherit what, and a comprehensive wealth transfer plan is often needed to help ensure your assets are distributed as intended, pass quickly and discreetly, and taxes and costs are minimized. However, the greatest risk to your legacy may be failing to prepare your beneficiaries for their inheritances. Consider talking to them about the challenges you overcame to build wealth, how you would like them to manage their inheritance, or even passing on assets while you are alive to allow your heirs to benefit from your hands-on guidance. Trusted financial, tax and legal advisors may also be able to provide guidance and assistance prior to and after they receive their inheritance.

For more information on planning for any financial stage in life, contact us today.

Saving for retirement is easy – try spending it

Retirement — when pensions replace salaries, RRSPs become RRIFs, and you begin to worry your golden years will be spent figuring out how to spend your nest egg. Here are some tips to help.

How can you replace the steady cash flow of a salary?

Before retirement, you may be paid bi-weekly or monthly for your services, and you address the mound of bills on your kitchen table. After you retire, passive income and government benefits trickle in only monthly, quarterly or even annually. The reality: bills don't care that your dividends come once a quarter. Fortunately, there are several ways to smooth your cash flow in retirement:

- Consider life annuities, which provide guaranteed income payments for the rest of your life and can be paid out monthly.
- Create a comprehensive financial plan that budgets your cash needs and determines a reasonable reserve for any intra-month or unexpected expenses.
- Ladder your dividends to provide smooth income.
- Schedule withdrawals from your RRIF, TFSA, non-registered accounts, etc. to replicate a regular paycheck.

Which account should you withdraw from first?

An effective withdrawal strategy is unique to you and considers your age, other sources of income, asset allocation and tax minimization. That said, there are rules of thumb that can help:

- Withdraw from the least flexible sources of income first (e.g. locked-in plans)
- Draw down on assets that trigger the least amount of taxation and maintain your registered accounts that can continue to grow on a tax-deferred basis

How are your investments spent once you're gone?

When the day comes, there's a question we all ask: how can I take care of my family and legacy with my remaining assets in a tax-efficient way? If you have a spouse, it's easy. Most assets that aren't already jointly owned can roll over to your partner on a tax-deferred basis. But when transferring assets to your children or other beneficiaries, it gets more complicated. At death, there is a "deemed disposition" of all of your assets. In other words, the CRA treats our investments as if our last words were "cash out my RRSP and sell the house." Any accounts held on a tax-deferred basis – RRSP, LIRA, RRIF, etc. – are fully taxable, while investments in non-registered accounts and assets like your home are treated as if they are sold at fair market value, triggering capital gains and losses.

As intimidating as wealth transfer can be, there are many strategies to minimize estate taxes. It starts with an estate plan, which can include using insurance to create tax-free benefits, gifting assets to family while you're alive, or donating investments to registered charities.

There's much more literature on saving for retirement than spending in retirement. To learn more, please contact us today.

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