Portfolio Advisor

RBC Wealth Management Dominion Securities

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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*.

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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.

Time well spent

Planning for a successful retirement is about more than just saving – it's also about your state of mind

Will Rogers once said, "Half our life is spent trying to find something to do with the time we have rushed through life trying to save." While the famous humourist may have been exaggerating for effect, the fact is that Canadians today are retiring on average at 63* and yet are living longer than ever before – many into their 90s. This means retirees will increasingly experience a retirement life stage of 30+ years – often longer than many have worked.

The 2,000-hour conundrum

While longer lifespans can be a blessing, they can also be a challenge regarding physical and psychological well-being. Many retirees are thrilled to be ending their working years and have thoroughly planned for it from a financial standpoint. However, many do not plan for a new and very real challenge: with the average Canadian working approximately 2,000 hours a year, what will they do with all that suddenly free time?

Beating the retirement blues

Soon-to-be retirees often view their retirement as a permanent vacation from work. It's the chance to do the things they've always wanted to do but never had the time or opportunity to: hit the snooze button, travel the world, play endless rounds of golf, catch up on their reading list or tick the box on their various "bucket list" items.

However, after spending the initial years of retirement occupied by fun-filled activities, many retirees must adjust their lifestyles to address health constraints or mobility issues. What's more, many retirees begin to miss the engagement that their work life provided them, whether intellectual or social, or both. This letdown often leads to the retirement blues, or, more seriously, depression.

A different kind of bucket list

To beat the retirement blues, retirement experts recommend the following activities for retirees:

- **Working:** Working? Didn't we just put that behind us? Yes, as counter-intuitive as it may sound, many retirees choose to work – mostly on a limited basis – not because they have to but because they enjoy it. Almost half of Canadian retirees have done some sort of post-retirement work, reporting that it provided them with purpose, social interaction – and a little extra spending money.
- **Volunteering:** Giving back to their communities or important causes is another way retirees can meaningfully fill their time. Many retirees volunteer because they can be as active as their time or health permits, and balance their volunteer work with their other retirement pursuits.
- **Lifelong learning:** Going back to school to learn or complete a degree can provide retirees with a high level of engagement and mental stimulus, along with the joy of learning and the fulfillment of accomplishing a goal. New hobbies are another area of learning that can provide sustainable activity and engagement over time.

While a fulfilling life comes in many forms, retirees who plan for the non-financial aspects of retirement can avoid the retirement blues and discover that retirement, like age, is just state of mind.

To learn more, please contact us today.

* Statistics Canada, 2015.

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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