FALL 2013

A QUARTERLY EDUCATIONAL NEWSLETTER FOR CLIENTS OF RBC DIRECT INVESTING INC.

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DIRECT INVESTOR

Most Awarded Discount Brokerage

In the *MoneySense*‡ 2013 Best Discount Brokerages Survey.

See page 6 for highlights.

New features in the RBC Direct Investing Community

Thanks to feedback from Community members[1], we're pleased to announce a number of exciting new features created to provide an even more rewarding online experience.

Here's what the Community has to offer:

- **NEW!** Sign up for email notifications so you can stay current on the Community events that interest you, such as when another member replies to your post.
- **NEW!** Create your own Challenges and invite your Community connections to join in.
- Share your thoughts and exchange ideas with other members in the *Forums*.[2] Join a discussion or start a new one on any investing topic of your choice.

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- Keep track of your progress toward your investment goals.
- See how other members are building their portfolios, and compare the performance of your portfolio to theirs in the *Universe*.
- Learn from others and increase your investment knowledge through the *Learning* page.
- Read about the learning experiences of other investors and share your own in *My Story*.

These are just some of the innovative features available to Community members. And remember, membership is free of charge and we'll never disclose your real identity to other Community members. Only you can see the dollar value and the number of units held in your portfolio.

Not yet a member? Join today to start connecting and sharing with other investors. The Community is open to all RBC Direct Investing clients. Simply log in to the online investing site and select the **Community** tab.

Members have their say about the Community...

It helps me connect with other investors who have similar interests and knowledge.

There are many Community members who are new to investing and I really enjoy answering their questions.

It offers a chance to learn from other members, share experiences and generate ideas.

Fellow self-directed investors have good tips based on years of experience. The Forums have a good cross-section of members that I can relate to.

Tell us what *you* think about the Community!
Select the "Send us your questions or suggestions" tile from the Community *Forums* page.

NEW Save on banking fees with MultiProduct Rebate

RBC Direct Investing accounts are now eligible for the MultiProduct Rebate — which rewards you for your business by reducing your monthly banking account fees.[3]

If you have an eligible RBC® personal banking account and two or more eligible RBC products under the same ownership, you could bank for free or enjoy reduced banking fees. Here's what you need:

- An eligible RBC personal bank account
- Two or more eligible RBC products, such as your:
  - Credit card
  - Mortgage or RBC Homeline Plan®
  - Investments — mutual funds or guaranteed investment certificates (GICs) held at RBC Royal Bank or an RBC Direct Investing account

Depending on the type of account you hold and the number of eligible products you have, your monthly savings could be as high as $10.95. You need to maintain a balance in your RBC Direct Investing account for it to qualify as an eligible product.

To learn more about the MultiProduct Rebate, call RBC Royal Bank at 1-800-769-2511, visit your local RBC Royal Bank branch or go online to www.rbc.com/multiproductrebate.

Market Outlook

Provided by RBC Global Asset Management Inc. on September 16, 2013

Activity in capital markets through the past quarter may indicate something very different from that of the post-financial crisis period. The sharp move higher in real rates of interest and the continuing climb in equity-market valuations suggest the possibility of regime shift: the shadow of the financial crisis is falling a lot shorter. As the distance from the fall of 2008/spring of 2009 grows, residual headwinds have calmed and risk premiums have normalized, moving bond yields and stock prices closer to their equilibrium positions (i.e. levels consistent with history) than at any point since the failure of Lehman Brothers and the unleashing of the full force of the financial crisis.

Shifting economic forecasts

The major economies of the developed world – the U.S., U.K, Eurozone and Japan – are all enjoying a bit better growth as they finally begin to escape the shackles of the global financial crisis. In sharp contrast, many major emerging-market economies – China, India, Brazil and South Korea among them – have slowed as prior tailwinds fade and new headwinds appear. Forecasters are scrambling to upgrade their developed-world growth forecasts and downgrade developing nations. To be clear, few are calling for emerging economies to actually grow more slowly than developed economies, but the extent of emerging-market outperformance is expected to narrow.

Pivotal shift in monetary policy

The outlook for monetary policy shifted meaningfully over the summer when the Fed began musing about tapering its program of bond purchases in the second half of 2013. It is important to distinguish between the Fed's plan to buy fewer bonds and a liquidation of its portfolio, or even a tightening of monetary policy. The Fed is merely contemplating a reduction in the rate at which it delivers stimulus from the current $85 billion-per-month pace, and is not considering reversing its prior ease. However, investors are correct in recognizing the importance of the signal that the Fed is sending to the market as it constitutes a major first step toward eventually unwinding monetary stimulus. The response to this change in tone from the Fed was a dramatic increase in U.S. bond yields, delivered through a spike in real interest rates from negative territory toward historic norms. As the world's bond bellwether, it is not surprising that rising U.S. yields have also elevated borrowing costs globally. Unfortunately, while higher interest rates are perhaps appropriate for the U.S. economy, they are less tolerable in other parts of the world due to their impact on growth. This is particularly true in emerging-market economies as higher U.S. yields are attracting money away from these markets.

Risks to our outlook

There are several events over the next few months that have the potential to alter the path for the economy and markets. These include the arrival of a new Fed chairman in early 2014, as well as the need for Congress to pass a resolution to keep the government funded past September and another to increase the debt ceiling sometime in October. These are not easy tasks, but neither political party appears to have the heart to seriously obstruct them.

What of Europe's debt crisis? Without question, it remains among the biggest risks to the global recovery and stock rally, and there are several ways that trouble could yet strike. Despite the risks, our basic thesis is still that the Eurozone will remain intact, that no major bank will fail and that no large country – meaning Italy or Spain – will default.

Expect further U.S. dollar strength

The U.S. dollar is in only its second year of a multi-year bull market. While no longer extreme, U.S. dollar valuations remain cheap, especially against the euro and commodity currencies like the Canadian dollar. In addition to long-term valuations, fundamentals, especially stronger-than-expected growth, support the U.S. dollar. Since growth became a key factor in monetary policy considerations for all of the major central banks, policymakers' views on the potential for growth will impact their thinking on the withdrawal of monetary easing. For the time being, it appears that the Fed is closest to the exit and our bias remains to position in the direction of further U.S. dollar strength.

Inflation still mostly tame

For several years, inflation has not been a major issue for financial markets or economies. In the developed world, this remains true. In an environment of tame inflation and gaping economic slack, there is no reason for this trend to change over the next few years. The emerging-market inflation story is slightly different. Many countries have brought inflation down near developed-market levels, but the recent bond sell-off has caused currencies in several countries to fall significantly versus the U.S. dollar. This could result in a temporary spike in inflation in these countries.

Sharply higher bond yields

The speed and intensity of the global bond market sell-off since May caught many off-guard, but it was not entirely unexpected. Interest rates were unsustainably low, and we have patiently maintained an underweight position in bonds for some time, hoping to minimize exposure to the painful adjustment whenever yields eventually normalized. Now, for the first time since the financial crisis, prices in the world's major bond markets are essentially at fair value, significantly altering the risk/return dynamic. We continue to forecast stable growth and controlled inflation, suggesting the need for no more than a moderate rise in bond yields from here, at least through the forecast horizon.

Global equities extend the rally

Heading into the end of the summer, equities pushed to new cycle highs and moved far closer to fair value than they have been since the onset of the 2008-2009 crisis. The bulk of the recent gains have been delivered by expanding valuations. As stock-market valuations are now approaching fair value in the U.S., in particular, more robust profit growth may be a precondition to continuing the recent pace of advance. Despite the improvement in the global economy, though, corporate profits are subdued due to a lack of revenue growth. As the economic recovery continues to gain traction, we look for sales to move ahead at a quickening pace, pushing corporate profits higher, and perhaps opening up scope for another leg in the equity-market rally. We recognize that today's higher valuations and sluggish profit growth represent a challenge to equities, but we have maintained our prior overweight position as the global stock market remains below fair value, just less so than before, and our economic outlook is supportive.

Added to bond weight over the quarter

The normalization in the economic outlook and investor sentiment has led to marked improvement in the global economy, a significant rise in bond yields and stock markets reaching new highs. As a sustainable economic recovery takes hold, we expect interest rates to continue to drift higher, reflecting the reduced demand for safe-haven assets and the eventual tightening of global monetary policy. We have been adjusting our allocation to fixed income, after having maintained a 35% fixed-income weight for nearly a year (versus our "neutral" weight of 40%). On three separate occasions during the summer, we added 1 percentage point to our bond weighting, pushing our allocation to the current level of 38%. We remain overweight equities as we believe valuations are still attractive and profit growth should tick higher with a better pace to the economy. For a balanced, global investor, we recommend an asset mix of 58% equities (versus a neutral position of 55%), 38% fixed income, with the balance in cash.

The complete RBC Investment Strategy Committee's Global Investment Outlook, including the recommended asset mix by investor profiles and the definitions of the investor profiles, can be found on the *Market Insight* page under the **Markets** tab on the RBC Direct Investing site.

Why an RESP makes sense for education savings

The cost of a post-secondary school education represents a major expense for most families and continues to rise. According to Statistics Canada, annual university tuition fees increased by an average of 5% in 2012 to an average of $5,581 — and are much higher in certain provinces.[4] When you factor in books, accommodation, food and inflation, you can expect to pay much more per year down the road.

Have you considered a Registered Education Savings Plan (RESP) to accumulate savings for your children's education? This tax-sheltered account may significantly increase your savings. Here are four ways an RESP can play an important role in helping you save for post-secondary education:

1. Free money

When you make an RESP contribution, the Canada Education Savings Grant (CESG) program matches 20% of the first $2,500 contributed annually for children up to the age of 18, to a lifetime maximum of $7,200. Some provincial governments also provide savings incentives.

2. Tax-deferred compound growth

All the investment earnings in the account grow tax-free until your child is ready to use the funds for higher education.

3. Withdrawals taxed in child's hands

When investment earnings and grants are withdrawn to pay for your child's education, they are counted as your child's income, not yours. Since most students typically have no or very low income, there will be little or no tax owing in most cases.

4. A dedicated account

By having an investment account that's dedicated to education savings, you can track your progress and increase the likelihood of achieving your education savings goal.

Make the most of your RESP with RBC Direct Investing

When you open your RESP with RBC Direct Investing, you can create a diversified portfolio by choosing from our broad selection of stocks, exchange-traded funds (ETFs), GICs, mutual funds, bonds and more. Plus, you can link your RBC Direct Investing RESP to the Goal Setting tool to chart your performance and keep track of your progress.

Choose to open a **Family Plan** or an **Individual** RESP. With a Family Plan, you can name more than one beneficiary, add a beneficiary or change the named beneficiary at any time. Each beneficiary must be related to you by blood or adoption. An Individual Plan is for a single beneficiary only; the beneficiary does not have to be related to you.

Savings Tip: To ensure you reach your education savings target every year, consider setting up a **pre-authorized contribution (PAC)** plan. The amount you choose will be automatically transferred from your chequing or savings bank account to your RESP on a weekly, bi-weekly, monthly or quarterly basis.

Next steps

- **Open an RESP or TFSA.** Select *Open New Accounts* under your **My Home** tab and follow the directions. You can also complete an account application at an RBC Direct Investing Investor Centre or any RBC Royal Bank branch.
- **Learn more about RESPs and TFSAs.** Go to the *Accounts & Services* page of the **Investment Products** tab.
- **Set up pre-authorized contributions.** Go to the **My Portfolios** tab, select *Transfer Funds* and click the *Pre-Authorized Contribution* (PAC) sub-tab.

Boost education savings through a TFSA

RESPs aren't the only way to save for post-secondary education. A Tax-Free Savings Account (TFSA) can be an excellent choice for saving additional funds. Here are some strategies to consider:

- Parents can withdraw from their own TFSAs to help pay for education costs. Amounts withdrawn from the account can be re-contributed in later years.
- Parents can give funds to their adult children to contribute to their own TFSA every year. The student can then draw down those funds as needed, and re-contribute in later years.

Tip: With our goal setting tools, you can link multiple accounts (such as an RESP and a TFSA) to your education savings goal. This will make it easy for you to keep track of your progress.

New features for option investors

With recent changes to the *Options* page, clients can customize their views and measure risk and potential profit/loss.

- **Filters:** Customize your option chain to see what's in or out of the money (or both), filter calls or puts (or both) or restrict the number of strikes you want to view.
- **Option Greeks:** Measure risk based on variables that influence option prices, and view price graphs that show potential (theoretical) profits and losses.

To use these enhancements, enter a symbol or company name in any Quotes & Research box, and then click the **Options** tab on the detailed quote. For more information about trading options, go to the *Options* page under the **Investment Products** tab or read the Option Income Generator under the Morningstar Pick List section of the *Market Insight* page.

Updated model portfolios

The model portfolio section of the online investing site has been simplified — making it easier for you to generate potential investment ideas and to help you diversify your investments.

Designed by experts at RBC Global Asset Management and RBC Dominion Securities, model portfolios can be a valuable resource for all investor profiles — from very conservative to aggressive growth. The mutual fund model portfolio is composed of funds from RBC Global Asset Management and third-party mutual fund companies. If you are interested in exchange-traded funds (ETFs), there is also an updated ETF model portfolio.

To view the updated model portfolios, visit the *Market Insight* page of the **Markets** tab. For more information on how to use them, go to the *Model Portfolios* page under the **Guidance & Planning** tab.

Canada's best online brokerages

In a recent MoneySense survey on Canada's best discount brokerages released in June 2013, RBC Direct Investing was the most awarded discount brokerage — earning top spots in four of the five categories. Among the reasons for being recognized was our easy-to-use planning tools for retirees and the availability of personal rates of return for "couch potatoes" (also known as "index investors"). We were also selected as the runner-up in two categories. For beginners, the survey cited our extensive investor–education resources and competitive fees, and for stock investors, our strong research tools including stock screeners and access to advanced instruments like options.

RBC Direct Investing

[1] Specific terms and conditions apply for membership in the RBC Direct Investing Community. For details please sign into the RBC Direct Investing online investing site, click the link to the Legal Terms of Use and read the RBC Direct Investing Community – Terms of Service.

[2] Forum topics and discussions are member-generated and do not constitute recommendations or advice of RBC Direct Investing Inc.

[3] If you have an eligible banking account and two or more qualifying, eligible RBC products in the same geographic location (region), you may receive a partial or full rebate on your Monthly Fee. Eligibility is as follows: RBC VIP Banking® and RBC Signature No Limit Banking®, monthly banking fees are partially rebated with a qualifying RBC investment product, RBC credit card, and RBC mortgage or RBC Homeline Plan. For RBC No Limit Banking®, monthly banking fees are fully rebated with a qualifying RBC investment product, RBC credit card, and RBC mortgage or RBC Homeline Plan. For clients aged 60+, no mortgage is required to qualify for fully rebated banking on their RBC No Limit Banking account. For the RBC Day to Day Banking® and RBC No Limit Banking for Students® accounts, monthly banking fees are fully rebated with a qualifying RBC investment product and eligible RBC credit card. Information on qualifying credit cards, investments and home equity financing products may be obtained at any RBC Royal Bank branch, by calling 1-800-ROYAL® 1-1 or online at www.rbcroyalbank.com/products/deposits/multiproduct-rebate. Qualifying RBC products for MultiProduct Rebate may be added or changed without notice. Only one rebate per account. MultiProduct Rebate does not apply automatically where ownership differs between the banking account and the eligible products. Some conditions apply.

[4] Statistics Canada, The Daily, "University Tuition fees, 2012/2013," September 12, 2012.

For more information on our products or services, or to complete an application, drop by any RBC Royal Bank branch or visit our website at www.rbcdirectinvesting.com.

For past issues of our newsletter, go to www.rbcdirectinvesting.com/newsletter.

For account-specific inquiries, call us toll-free at 1-800-769-2560.