SUMMER 2014

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

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# DIRECT INVESTOR

## Coming soon: New ways to manage your portfolio

Redesigned pages, easier access to goals, plus enhanced holdings and activity views are just a few of the improvements coming to the new **My Portfolios — beta** tab. Look for details in the Information Centre of the online investing site later this summer.

## Currency and cost savings — purchase and hold investments in both Canadian and U.S. dollars

The recent decline in the Canadian dollar against the U.S. dollar has highlighted the potential impact of currency movements on investments valued in a foreign currency. Fortunately, as an RBC Direct Investing™ client, you can hold both Canadian- and U.S.-dollar assets in most of your accounts (RESPs are the only exception). This dual-currency feature enables you to decide if and when you want to convert your U.S.-dollar holdings into Canadian dollars.

When you buy an investment, just select which side of your account (Canadian or U.S.) you want the trade to settle in (USD or CAD). When you sell U.S.-based securities held in the U.S. side of your account, you avoid the cost and inconvenience of exchanging U.S. dollars to Canadian dollars and vice versa.

Whether a security is listed on a U.S. exchange only, or on both U.S. and Canadian exchanges, this dual-currency feature helps to make cross-border investing easy and cost-effective.

To learn more, log in to the online investing site, select the *Accounts & Services* page under the **Investment Products** tab and select the **Dual Currency** sub-tab.

## In this issue



## You could win[1] $1,000 weekly — just by being a Community member. Join today!

See page 6 for details.

RBC Direct Investing

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# Qualitative and quantitative analyses: two complementary research approaches

As a self-directed investor, you rely on detailed information to help you identify good investment prospects when making your buying and selling decisions. This research is an important aspect of your decision-making process.

Two recent issues of the *Direct Investor* newsletter focused on technical and fundamental analyses, respectively. Both types of analyses include aspects of the quantitative and qualitative approaches investors use when researching companies. Read on to learn how you can use quantitative and qualitative analyses in your research.

## Simpler than you may think

While the words "quantitative" and "qualitative" may sound complex, most of us use both types of analyses in the decisions we make every day.

Searching for a hotel is a good example. To help with your decision, you may use the qualitative information on travel review websites that highlights subjective measures such as the quality of the surroundings, service levels and the enjoyment of the overall experience.

But to finalize your decision, you'll also want objective, quantitative information from the hotel reservation line or website — such as price, room size, amenities and the distance from key attractions.

## The investment context

When researching companies, the same two types of measures can be used — but how do the two compare?

*Qualitative* analysis is *subjective*. Investment analysts look at a variety of factors, such as industry trends, the effectiveness of a company's management and the strength of a particular brand, to form an *opinion* about the company and its stock.

*Quantitative* analysis is *objective*. Investment analysts study a company's financial statements, analyzing the numbers — revenue, expenses, assets, liabilities and so on — to try to determine if a security is underpriced, fairly priced or overpriced.

Is one better than the other for certain investments? In a word, no. They simply provide different kinds of information. By considering both, you can gain a 360-degree view of a potential investment for your portfolio.

## Where to go for research

There are a number of places for you to access research on the RBC Direct Investing website.

For example, from the *Detailed Quote* of a stock, visit the **Research** sub-tab for third-party qualitative analysis from Morningstar‡. You can also use the information on the **Fundamentals** tab to do your own qualitative analysis by reviewing a company's price/earnings ratio or return on equity.

If your focus is more of a quantitative approach, go to the **Financials** sub-tab of your *Detailed Quote* to review a company's income statement, balance sheet and cash flow. You can also visit the **Technicals** sub-tab for third-party technical analysis from Recognia‡.

For additional resources from Morningstar, head to the *Market Insight* page on the **Markets** tab to read the "*Canadian Research Highlights*" report or to review Morningstar's Pick Lists. For more technical analysis information, the *Technical Analysis* page offers technical events and education from Recognia.

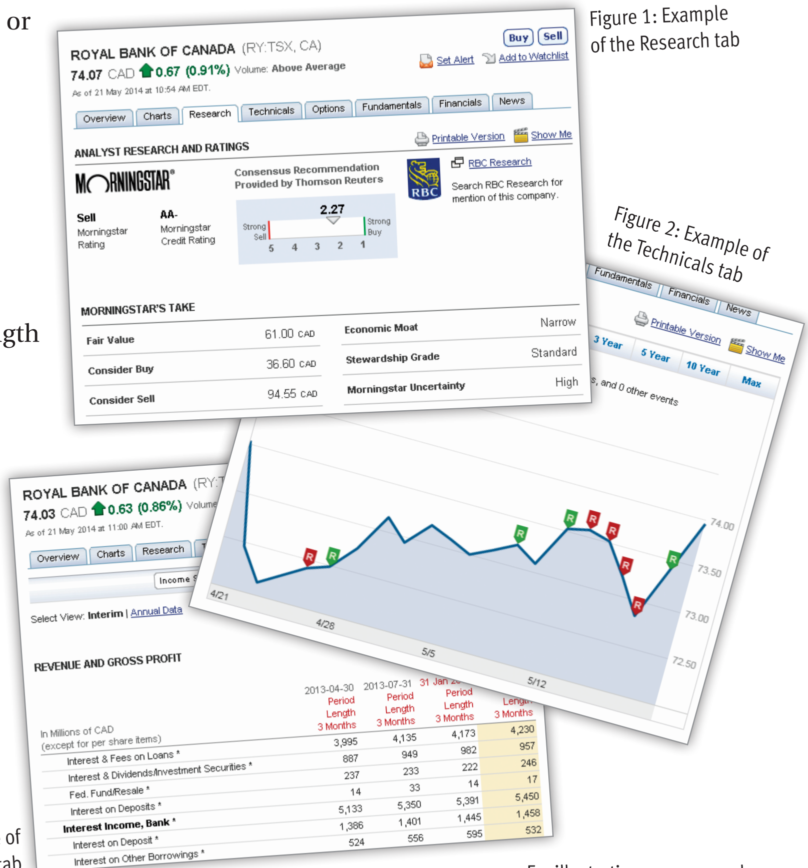


Figure 1: Example of the Research tab

Figure 2: Example of the Technicals tab

Figure 3: Example of the Financials tab

For illustrative purposes only.

# Market Outlook

Provided by RBC Global Asset Management Inc. on June 16, 2014

Led by North America and other developed markets, the global economy continues to gain traction, although the U.S. suffered an unwelcome drop in first-quarter output due to unusually bad weather and a decline in inventories and exports. The market is grappling with whether the recent economic weakness will persist. We believe the answer is "no," and our key economic theme remains that of accelerating growth in 2014 for much of the developed world. During the past quarter, bond yields reversed course and moved lower, vexed by the economic weakness as well as geopolitical concerns and pension-fund rebalancing. Stock indexes continued their trend higher, but with far less enthusiasm than in 2013.

While some risks have faded, such as the threat of deflation, others have intensified. Geopolitical risks have mounted, most obviously as the struggle for eastern Ukraine drags on. Emerging-market credit excesses remain largely unaddressed, with tentative evidence of a reckoning underway in Chinese housing. The mystery of subdued global trade constitutes a new risk, hinting that all is not harmonious in the global economy. Our sense is that the coming economic good news for the developed world is more likely than not to trump the downside risks.

## Normalization unbowed

We continue to subscribe to an economic-normalization thesis, with the revival of risk appetite in 2013 and the abatement of fiscal austerity in 2014 enabling materially faster growth for the rest of this year and beyond. Since the turn of the year, the consensus outlook for developed-world growth has edged higher, while emerging-market expectations have slipped. We welcome these developments, as they reflect the tendency for the economic reality to converge upon our relatively optimistic developed-world forecasts and more cautious expectations for emerging markets.

Much of the heavy lifting with respect to our improved global growth forecasts will come from the rejuvenated developed nations, the U.S. in particular. Two key drivers of the U.S. economy are housing and employment. The general trend in the U.S. housing market has been quite poor for many months. From the perspective of the U.S. Federal Reserve, the sluggish housing market is a clear concern, but the economic outlook is otherwise sufficiently promising to warrant an end to quantitative easing by the fall of this year and a turn toward rate hikes sometime in 2015. The U.S. job market has recently accelerated, a trend we believe can persist if our optimistic GDP growth forecast prevails. All of this supports our view that personal income growth can accelerate nicely, supporting consumer spending and the overall economy.

## Global inflation to rise

At the onset of 2014, one of the market's key concerns was that declining inflation might eventually transform into deflation. We believe that deflation is unlikely and that inflation should continue to trend higher over the next few years, conceivably even running ahead of the consensus and central-bank expectations. This view is based on our assessment that the financial crisis has eroded away a significant amount of the global economy's potential, leaving less distance between current output and full capacity.

## U.S. dollar strength expected to continue

We expect the U.S. dollar to continue strengthening against most major currencies over the next few years. The biggest adjustment should occur versus the euro, which is the only major currency that hasn't weakened much against the greenback in recent years. The euro is extremely overvalued based on many models, and relative monetary policies favour the U.S. dollar. We expect the yen to keep weakening, assuming additional monetary easing by the Bank of Japan accompanied by a significant rebalancing of pension funds to favour foreign assets over domestic ones. The pound is likely to resist U.S. dollar strength for the time being, as the U.K.'s economic outperformance fans speculation that the Bank of England will be the first major central bank to begin the tightening cycle. It will be difficult, however, for the pound to maintain its strength against the greenback, and we expect sterling to succumb to U.S. dollar strength at some point. Finally, we expect the Canadian dollar to weaken against the U.S. dollar, but do relatively well against the other major currencies.

### Bond yields decline, but not sustainably

Beginning in mid-2013, bond markets underwent a massive correction that pushed many of them close to equilibrium levels. Since then, yields have fallen, although most major markets still trade much closer to equilibrium than they have in many years. Over time, however, real rates of interest should gradually rise alongside a normalizing economy, pulling nominal yields higher in the process.

There are several factors at play in the bond market that could continue to dampen upward pressure on yields. Global demand for fixed income has been on the rise as more pension funds switch to liability-driven investing. On the supply side, central banks are still providing unprecedented amounts of stimulus, with the U.S., Japan and the U.K. reducing sovereign-bond supply through quantitative easing. In the near term, this increased demand and reduced supply will influence the pace of rising yields, but our long-held view that bond yields will eventually move higher has not changed. As a sustained global expansion gains traction, inflation and real interest rates should normalize and central banks will eventually begin to remove stimulus, pushing yields higher.

### Equities: the bull market continues

Stock markets continue to rise and are now approaching fair value in many parts of the world. Despite recent strong performance, valuations remain reasonable and history indicates that stock markets frequently continue to rise long after they have hit equilibrium. That said, we recognize that as equity valuations rise, stock markets become more susceptible to external shocks and corrections. Should markets continue to rely on expanding valuations to drive returns, we would expect volatility to increase, and total returns to equity investors to be lower, although still positive.

Going forward, a more sustainable source of future returns will be earnings growth. As the recovery gains traction, we expect higher GDP growth to translate into expanding sales. If companies are able to maintain profit margins, the rebounding revenue growth should accelerate earnings, potentially supporting the stock market's next move higher.

### Taking advantage of trading opportunities

We continue to take advantage of tactical opportunities as they are presented, and the recent bond rally has prompted us to remove one percentage point from our fixed-income allocation, expanding our modest underweight position in bonds. We remain below our benchmark exposure to fixed income as we expect that rising bond yields will eat into coupon income and lead to low returns for holders of bonds. We have maintained our overweight position in equities. We added two percentage points to our allocation in April and reversed half of that move during the month of May. While valuations suggest that near-term returns from equities should be lower than they have been since the crisis, stocks are still expected to outperform bonds across all time frames and this is reflected in our asset mix. For a balanced, global investor, we recommend an asset mix of 59% equities (strategic neutral position: 55%), 37% fixed income (strategic neutral position: 40%) 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.

# Your mutual fund search is now easier

Finding a mutual fund that's right for your portfolio can seem like a daunting task. There are thousands to choose from, and the same fund can be available in more than one series with different fees or minimum investment requirements. No wonder some investors find it confusing.

We wanted to make it simpler. Recent enhancements to the screener on the *Mutual Funds Centre* make it easier and faster to find the funds that can best meet your needs.

We asked **Michael MacDonald, Vice President, Strategy** at RBC Direct Investing, to explain how these changes can help you with your mutual fund investments.

### What's changed in the mutual fund screener?

When you use the screener, the matches you receive will be the lowest-cost versions available. Where possible, your search will return Series D[2] funds. If Series D funds aren't available, your match will provide you with the next lowest-priced version, typically Series A. You will still have access to the same broad selection of funds, but the higher-priced versions — the ones designed specifically for financial advisors and their clients — won't be shown.

### What are Series D funds?

These funds are designed specifically for self-directed investors. They reward you for doing your own research and making your own investment decisions by offering lower management fees. In the winter edition of *Direct Investor*, we announced the new lower minimum investment — which starts from as low as $500 — and that access to Series D funds had been expanded to include a number of major mutual fund companies. To find Series D funds, go to the *Mutual Funds Centre* under the **Quotes & Research** tab and click "See All Series D Funds."

### Why did you make the change to the mutual fund screener?

With so many mutual funds available — and often many series for each fund — it was sometimes hard for investors to make their selection. We wanted to streamline the choices for self-directed investors so that the best-value options for a particular fund bubbled to the top.

### Can you describe how to use the screener to search for mutual funds?

To start your search, go to the *Mutual Funds Centre* under the **Quotes & Research** tab and click "Find the perfect fund."

If you aren't sure where to start, you can use the predefined fund screeners designed by our investment professionals. Then you can add your own criteria to further refine your search. Once you've narrowed your search, you can compare investment performance by using the mutual fund screener to sort the best-performing funds over a specified time period.[2]

### What other tools are available to help clients choose funds?

There are a number of tools on the main page of the *Mutual Funds Centre* that can help you find mutual fund investments. For example, under the Mutual Fund Research section, click "Expert Insights" to access articles from third-party investment professionals and leading companies to help you manage your mutual fund holdings. If you're looking for in-depth, up-to-date commentary on markets and investment trends, check out the Editorials provided by Morningstar, one of the leading investment fund research firms in North America.

### Are there any other resources in the Mutual Funds Centre that clients should consider?

Clients may also want to look at the Spotlight Funds — a list of some of Canada's best funds as selected by RBC Dominion Securities® research analysts, based on factors such as management experience, long-term performance and investment strategy.

Moving lower on the same page, Model Portfolios are another option to consider. These are portfolios of different mutual funds prepared by experts at RBC Global Asset Management Inc. that provide instant diversification. And they are available for every risk tolerance level — very conservative, conservative, balanced, growth and aggressive growth.

## Can't find a fund? Call us!

If there's a particular fund you can't find, we can help. Contact an Investment Services Representative for assistance at 1-800-769-2560.

If you are looking for help in choosing funds, the *Mutual Funds Centre* is an important resource — and a great way to make the process easier. You'll find it under the **Quotes & Research** tab of the online investing site.

# Community $1,000 weekly giveaway

RBC Direct Investing is offering all Community[3] members — existing and new — the chance to win weekly cash prizes of $1,000. Twelve weekly draws will be held, starting the week of July 21, with the last draw taking place on October 9. Everyone qualifies as long as they join the Community by the cut-off date for each draw.[4]

Are you already a member of the Community? Great — you qualify automatically, with no further action required. If you haven't joined the Community, join now to maximize your chances of winning. Any member can win more than once — so the sooner you join, the more chances you have to win. **For contest rules, please visit rbcdirectinvesting.com/communitycontest.**


## More reasons to become a member

The Community has great features to help you learn and grow as an investor:

- ***Forums.***[5] Exchange potential investment ideas and interact with other members. You can also read the latest discussions on popular topics such as "Current Market Events" and "Financial Planning."
- **The *Universe*.** Recent improvements make it even easier for you to zoom in and see the securities that other members hold. You can decide if any of their holdings are potential investments for your portfolio and compare the performance of your portfolio to theirs.
- **Articles and tips.** If it's investment information you're looking for, you can gain insights by reading case studies and tips on investment strategies, such as investing tax-efficiently or generating retirement income.

With $1,000 being given away each week, there's no better time to join the Community. Log on to the online investing site and select the **Community** tab.

RBC Direct Investing



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[1] The weekly draw is only open to RBC Direct Investing Community members. No purchase necessary. Selected participants in the draw must successfully answer a skill-testing question before they can be declared a prize winner. Please see complete contest rules for further information at rbcdirectinvesting.com/communitycontest.

[2] There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed or covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer, their values change frequently and past performance may not be repeated. For money market funds there can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you.

[3] Specific terms and conditions apply for membership in the RBC Direct Investing Community. For details please sign in to 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.

[4] See contest rules for details at rbcdirectinvesting.com/communitycontest.

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

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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.

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