

DIRECT INVESTOR



Ranked #1 in client service by DALBAR

for the 3rd consecutive year

Market Outlook

Provided by RBC Global Asset Management Inc. on December 15, 2010.

The global economy continues to struggle in the aftermath of the credit crisis, but the recovery is gaining traction. Unprecedented amounts of fiscal and monetary relief kick-started and sustained the upswing. Still, with crises bubbling up with alarming frequency and intensity, the forecasting environment remains murky. The business-cycle upswing that began in the spring of 2009 seems likely to sustain its muted and tentative pace through mid-2011, gaining strength from a new round of quantitative easing, a slowly improving jobs market, and growing incomes and profits.

Recovery gaining traction but risks persist

Headwinds to North American growth are still strong, including the sovereign-debt crisis in Europe, credit, housing and employment. The domestic housing market has weakened in recent months, suggesting that the stability that appeared earlier this year was more a function of government support than of a market finding equilibrium. The U.S. employment picture remains depressed and the elevated unemployment rate is an obstacle to a faster recovery.

The Eurozone remains in a state of flux and the local banking/fiscal crisis is far from over. We expect Europe to eventually right itself, and a continued recovery in the U.S. and strong growth in China to provide the Eurozone with breathing room to work through its debt problems. Contagion remains a risk, but a review of indicators that gauge stress within financial markets beyond European bank and sovereign debt suggest the crisis remains contained so far.

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New tools to help you build your long-term retirement plan

To help you set your retirement goals, or any other goals, and invest to achieve them, RBC Direct Investing™ has a guide available called the **Six Key Steps to Investing**. You'll find it in the **Guidance & Planning** tab on our online investing site.

Used in conjunction with our new **Goal Setting** tool, **Analyze & Rebalance** tool and **Performance** tool, this comprehensive guide can help you develop and implement a sound investment plan, step by step.

Step 1: Define your retirement goal

It's easier to achieve your goals when you have a plan in place. Our new Goal Setting tool can help you get started, by walking you through the following steps:

1. Decide on the time frame; when do you want to retire?
2. Determine how much money you need for your retirement.
3. Link one or more RBC Direct Investing accounts to your goal, to establish a starting point.

Now you are ready to see if you are on track to reach your destination. Try different "What if" scenarios to see how changing variables, such as your annual contribution amount could affect your goal outcome. To help you contribute towards your goal, you can use the **myFinanceTracker** tool available on RBC Online Banking to create a monthly budget.

Step 2: Determine your investor profile and asset mix

The **Do I have the right asset mix?** calculator can help you determine your investor profile and choose the asset mix that's right for you. Your investor profile is based on your tolerance for risk, time horizon and financial situation.

There are six standard investor profiles to choose from, ranging from secure to aggressive growth. Each one is associated with a mix of cash, fixed income and equities to provide the right balance of safety and growth potential.

Step 3: Understand investment choices

Now you can focus on what you should invest in and how you should invest. This is important because you need to consider diversification, tax implications and the products available. You'll find in-depth information on different types of accounts under the **Accounts & Services** tab and a wide range of investment vehicles under the **Investment Products** tab.

What kind of account(s) do you need? You can choose from Registered Retirement Saving Plans (RRSPs), spousal RRSPs, Locked-in Registered Accounts (LIRAs) and Tax-Free Savings Accounts (TFSA), in addition to investment cash or margin accounts. Each has its own tax implications and its own rules. All of them can hold a wide range of investments.

What are your investment choices? Your investment choices include bonds, stocks, mutual funds, exchange-traded funds (ETFs) and options. Different investments have different risk/return profiles and different tax treatments.

Step 4: Build your portfolio

The **Portfolio Analyzer** tool can help align your asset mix by comparing your holdings to your chosen specific investor profile. It can also break down your holdings into 12 different industry sectors, analyze mutual funds and ETFs by their underlying investments and alert you of any over concentration in a particular stock or sector.

If your current asset mix is not in line with your retirement goals, the Portfolio Analyzer tool lets you use your own trial transactions to see how changing your holdings will affect your portfolio — before you trade in the market.

Finally, the tool reviews the amount of risk/volatility inherent in your portfolio and compares it to the potential return.

Step 5: Take action

The next step is to buy or sell the investments that can help you build your portfolio or rebalance an existing portfolio to align it with your retirement goals.

There are resources throughout the site to help you find the investments you need. Under the **Quotes and Research** tab you will find detailed quotes and in-depth research on stocks. You will also find **ETF and Mutual Fund Centres**, which offer screeners and detailed information on funds. Within the **Markets** tab are a variety of commentaries and insights as well as **Model Portfolios**, built by experts in RBC Global Asset Management and RBC Dominion Securities for each investor profile.

Step 6: Monitor your portfolio

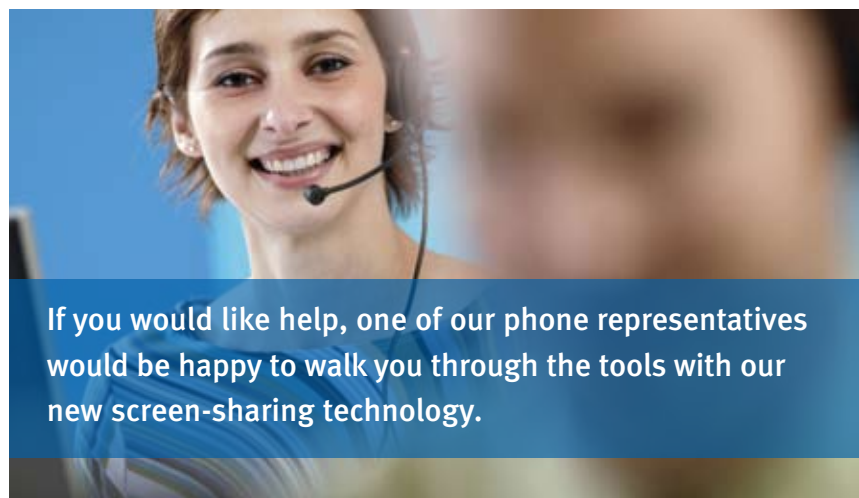
Once you've built or rebalanced your portfolio, it's important to monitor it regularly to keep it on track.

The **Manage My Goals** page illustrates how you are progressing toward your retirement goals. This page also contains a number of resources that can help you monitor your progress and keep track of any remaining rebalancing activities for your portfolio.

On the **Performance** page, you can chart the accounts linked to your retirement goal and compare their rates of return to those of a standard investor profile or major market indices.

The **Analyze & Rebalance** page allows you to review your trading ideas and make sure your asset allocation remains aligned with your investor profile.

As you move toward your retirement goal, you will want to repeat these six steps regularly, analyzing and rebalancing your portfolios when necessary. To help you put your plan into action, you have access to a variety of online resources including, **Show Me** videos, **Practice Accounts** and the **Guidance and Planning** tab.



If you would like help, one of our phone representatives would be happy to walk you through the tools with our new screen-sharing technology.

Introducing the Personalized Learning Plan



An exciting new feature to help you increase your investing knowledge and become a more confident investor is launching soon. Called the **Personalized Learning Plan**, it will be found under the **Guidance & Planning** tab.

The Personalized Learning Plan will provide you with the online resources that are best suited to your individual needs — in a format which is easy to learn. It will first guide you through a short questionnaire designed to learn a bit about you, and from this, a customized plan will be created, based on your responses.

You will then be presented with a range of resources, including articles, Show Me videos and recommended activities to try with a Practice Account. As well, the plan will suggest possible investment strategies and point you to the best tools to help you research prospective investments. Handy links will be provided to help you find the suggested materials.

Creating a Personalized Learning Plan can give you a deeper knowledge, not only of investing, but also of who you are as an investor, allowing you to gain confidence using the many tools and resources on the RBC Direct Investing site.

Now there are more ways to chart your performance

The **Performance** page, found under the new **My Portfolios** tab, is a valuable way to track the progress of your investments. Now, we're making it even more helpful by adding the ability to chart portfolios that include more than one account.

When it was first introduced, you could use the Performance tool to track the performance of a single account and compare it to different benchmarks and indices. Now, you can get an overall picture of how close you are to achieving your investment goals. You can configure the **Performance** page to show the rate of return of a goal made up of several accounts — for example, the rate of return for your retirement goal, which is made up of your RRSP, TFSA and investment accounts.

If you are interested in seeing the rate of return for a group of accounts not linked to a goal, go to the **Account Groups** page under the **My Portfolios** tab and select the **Add New Group** button.

Time to think about taxes

The beginning of a new year is a good time to think about your tax planning for the year ahead. By planning early, you can make the best use of the tax-reduction strategies available to you. Here are a few dates to keep in mind for the first quarter of 2011:

- **January 1.** All Canadian residents who have reached the age of majority in their province will receive \$5,000 in contribution room for their Tax-Free Savings Accounts (TFSAs). Contribute as soon as you can to maximize tax-free compound growth. If you haven't yet opened a TFSA, it's easy to open an account online.
- **January 30.** This is the deadline for paying interest on a loan made to a lower-income spouse for investment purposes. If the interest isn't paid on time, any investment income generated by the loaned amount will be attributed back to the higher-income spouse for tax purposes.
- **March 1.** This is the deadline for making a Registered Retirement Savings Plan (RRSP) contribution that you can deduct on your personal income tax return for 2010.

Quebec Education Savings Incentive (QESI) is now available

The Quebec Education Savings Incentive (QESI) is a refundable tax credit that encourages Quebec families to start saving for the education of their children and grandchildren. RBC Direct Investing will automatically apply for and directly deposit the basic tax incentive for all eligible Registered Education Savings Plans (RESP) held with RBC Direct Investing. The incentive is equal to 10% of the amount contributed into the qualifying RESP each year, to a maximum of \$250 per year.



Easy online contributions to your RRSP and TFSA

At RBC Direct Investing it's easy to contribute to your RRSP or TFSA when and how it's convenient for you.

- You can make your contribution at any time of the day or night by using the Transfer Funds function on the RBC Direct Investing site. The money can be transferred directly from your RBC Royal Bank account or your RBC Direct Investing non-registered investment account.

President's message: 2010 – a year in review



Thank you for choosing RBC Direct Investing. The past year was filled with accomplishments and the New Year promises to be just as fulfilling.

In 2010, in response to your changing needs, we introduced an extensive lineup of exciting new features to improve your investing experience and provide you with outstanding value for your money. Looking ahead, you can expect even more enhancements to come.

The year started on a high note in January, with RBC Direct Investing receiving Dalbar Inc.'s *Direct Brokerage Service Award* for 2009. This marks the third consecutive year that we have received this prestigious award.

In the spring, we replaced paper statements with electronic statements for all personal online accounts. Now, you can easily monitor your accounts while you minimize the size of your environmental footprint.

With the introduction of Dual Currency in Registered Accounts in May, you gained the ability to hold and settle trades in U.S. dollars within your registered accounts, avoiding the cost and inconvenience of foreign exchange from and to Canadian dollars. We are Canada's only major bank-owned online brokerage to make this capability available to clients.

Fall brought exciting news as three powerful new features were launched to help you build your portfolio and reach your financial goals. The new Goal Setting tool allows you to link your accounts to your chosen goals and track your progress toward achieving them. Using the Analyze & Rebalance tool, you can then align your asset mix with your objectives and try out possible changes to your portfolio before trading for real. The Performance tool allows you to chart your rate of return, compare the performance of your portfolios to major indices and benchmarks, and even track the performance of multiple accounts.

To provide even better value to more RBC Direct Investing clients, we lowered the amount of household assets needed to qualify for \$9.95 flat commissions to \$50,000¹, down from \$100,000.

It's been a great year, and 2011 promises to be just as exciting. On page 3 you'll find the announcement of our latest new feature, the Personalized Learning Plan, designed to help you get the maximum benefit from our educational resources. Stay tuned for more announcements as the year progresses.

On behalf of the entire RBC Direct Investing team, I would like to thank you once again for choosing RBC Direct Investing and wish you much success in the year ahead.

Sincerely,

Jason Storsley, CFA
President and CEO
RBC Direct Investing Inc.

Now available — lower commissions for even more clients

RBC Direct Investing clients enjoy some of the lowest trading commissions in the industry. Now, even more of our investors can take advantage of our low trading fees.

As of December 22, 2010, clients who hold \$50,000 or more in household assets in their RBC Direct Investing accounts will qualify for flat \$9.95 commissions on Canadian or U.S. equity trades.¹ Previously, a minimum of \$100,000 was required to qualify. Qualifying clients will also pay

\$9.95, plus \$1.25 per contract for Canadian and U.S. option trades.

This added value means there has never been a better time to consolidate all your assets with RBC Direct Investing. You'll enjoy the convenience of managing all of your investments in one place, along with access to some of the lowest fees and best online tools and information.

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A story of two dollars

Markets have interpreted the Fed's extended use of easy monetary policy, most recently in the form of QE2, as a sign that the U.S. is committed to devaluing the dollar. However, this effort is not likely to be effective against developed-market currencies, which either have their own set of problems (the euro, for example), or are overvalued against the dollar based on purchasing power and further appreciation is, therefore, unlikely. What the U.S. would like to achieve is devaluation of the dollar against emerging market currencies which are pegged to the dollar. For those with a longer-term time horizon, dollar weakness against major currencies should be bought, while emerging market currencies should be accumulated on weakness.

Short rates to remain low

Short rates remain at rock-bottom levels. That this degree of monetary ease is becoming a semi-permanent feature of policy across the developed world is a constant reminder that conditions are far from "normal" despite the recent improvement in economic indicators. With QE2 in full force, the Fed is a long way from tightening policy. Recent record-low U.S. inflation readings reinforce this view. Eventually, as the sense of crisis gradually abates and the economy generates self-sustaining forward momentum, the potential for rate hikes will appear.

Return to economic normalcy a threat to bond markets

Since early October, yields on 10-year T-bonds have risen more than almost 100 basis points. Following such a significant move, it is prudent to reduce the size of our underweight position in fixed-income markets relative to our balanced benchmark. That said, we are simply modifying, not reversing, our

position. While bond yields are justified by current economic conditions, a return to economic normalcy, whenever that occurs, remains a critical threat to the bond market.

Equity valuations remain attractive

Corporate profits, a crucial element of bull markets in equities, remain healthy. Today's powerful earnings environment might be less compelling if investors had already incorporated it into expectations, pushing market valuations up sharply in anticipation. But, they haven't, and this remains the key reason behind our overweight in equities. As long as valuations reflect an economic environment more depressed (and more risky) than it actually is, there is an opportunity to capture attractive gains as valuations normalize.

Remain overweight equities, reducing underweight in bonds

We continue to seek gains and avoid losses through frequent tactical re-positioning as markets remain unusually volatile. Although we have boosted and trimmed our exposure to stocks several times since the equity rally began in March 2009, we have maintained an above-benchmark exposure to equities, consistently focused on the opportunities that exist as earnings rise and multiples expand with the gradual normalization of economic and market conditions. As mentioned above, we are increasing our fixed income weight to 37.5% from 35.0%, sourcing the funds from cash. For a balanced global investor, our current recommended weight in equities of 60% is above our neutral weight of 55% (within an allowable range of 40% to 70%). We remain underweight fixed income at 37.5% versus a neutral setting of 40% (allowable range 30% to 60%), with the remaining 2.5% allocated to cash.

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.



RBC Direct Investing™



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¹ \$6.95 flat CDN or US equity trade when you trade 150 times or more per quarter; \$9.95 flat CDN or US equity trade with \$50,000 or more of household assets held in RBC Direct Investing account(s) or trade between 30 and 149 times per quarter effective December 22nd, 2010. Household asset accounts are defined as RBC Direct Investing accounts for clients living in the same household and having the same address. You must advise RBC Direct Investing of these multiple account relationships. This pricing applies to trades placed through the online investing site and the automated telephone service. Additional terms and conditions apply. Visit www.rbcdirectinvesting.com/lowtrades or call 1-800-769-2560 for details.

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