WINTER 2014

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

DIRECT INVESTOR

40922 (12/2013)

Dates to remember

January 1, 2014: New contribution room becomes available for your RRSP and TFSA for the 2014 tax year.

March 3, 2014: Deadline to contribute to an RRSP for the 2013 tax year.

Series D mutual funds

Same great value. Now with a lower minimum investment and more choice.

Series D mutual funds[1] are designed specifically for cost-conscious self-directed investors.

Initially offered by RBC Direct Investing™ and RBC Global Asset Management in 2007, Series D was the first mutual fund series in Canada to reward self-directed investors for managing their own investments and making their own decisions by offering lower fees, investment minimums as low as $500 and, now, even more choice.

Experience the rewards of making your own investment decisions

As a value-minded self-directed investor, you want your investments to work harder for you. With Series D mutual funds, you benefit from:

- **Pricing for self-directed investors:** Lower management fees for doing your own research and making your own investment decisions.
- **Professional money management:** Offered by mutual funds.

See *Lower minimum investment to purchase* on page 2

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- **Lower minimum investment to purchase:** With the lower minimum announced last fall – starting from as low as $500 – it's easier than ever for all investors, regardless of the size of their portfolio, to access units of Series D.

Even more choice

In addition to the Series D units available from the RBC Global Asset Management family of funds and Beutel Goodman‡, now you also have access to Series D funds from BlackRock‡, Invesco‡ and Mackenzie Investments‡. We're excited to expand this offering and hope to announce even more participating fund companies soon.

Tools to help you choose

If you have a particular fund in mind and want more details, or to help you select Series D funds, use our Mutual Fund Screener, which has been improved to be more intuitive. For example, once you have entered your desired criteria, if there are Series A and D versions of the same fund that match the criteria you've entered into the screener, the results will be automatically filtered to return only the Series D version. This makes it easier for you to pinpoint the mutual funds priced specifically for self-directed investors. To use the screener, select the *Mutual Funds Centre* sub-tab on the **Quotes & Research** tab and click "Find the perfect fund" under the Mutual Fund Research section.

In addition to the screeners, there are a number of research resources available in the Mutual Funds Centre such as RBC Dominion Securities® Spotlight Funds, Morningstar‡ editorials and mutual fund model portfolios.

More ways to save

Your mutual fund savings extend beyond Series D. For one, mutual fund transactions are commission-free.[2] That means your trades to buy, sell or switch are free. And, with an account balance of $15,000 or more across all of your accounts, you'll pay no quarterly maintenance fee – an annual savings of $100. If your account balance is under $15,000, the quarterly maintenance fee is waived when you set up a monthly pre-authorized contribution (PAC) of just $100.

For more information about Series D, including a list of available funds and participating fund companies, go to the Quotes & Research tab on the online investing site and select the *Mutual Funds Centre* sub-tab.

Trade confirmations are changing

Starting in early January, trade confirmations will be simplified to display all trade orders in one consolidated confirmation – making it easier for you to keep track of your orders. For example, if your order is filled across two or more exchanges, instead of receiving a separate confirmation for each exchange, you will receive one consolidated confirmation with an average price. Further details will be available in the Information Centre of the online investing site later this month.

Celebrating the community you've built

This January marks a year since the launch of the RBC Direct Investing Community[3], and we want to celebrate this milestone with you. The Community has grown into a dynamic place where members can gain knowledge, interact with others or just browse for inspiration and ideas. Here's a look at a couple of the most popular sections and how they can help you become a more confident investor.

- **Forums[4]:** Visit this space to read the most active discussions, ask questions or voice your opinion on the investment topics that interest you.
- **The Universe:** If you're looking for inspiration, head to the "Universe" page, where you can see how all the goals in the Community, including yours, are doing on a risk/return grid. You can also view the securities held for any of the goals you like. It's a great way to discover potential investment ideas or compare the performance of your portfolio to those of other members.

If you're a Community member who hasn't visited for a while, now is the time to come back and find out what you've missed. If you haven't joined, simply select the **Community** tab once you've signed in to your RBC Direct Investing account.

Wondering what's up for discussion in the Community forums? Here are a few examples from real Community members.

I thought it would be interesting to see what the action is here in the Community. Market activity is perking up and the TSX has been heading up. So are you participating or are you still waiting to be sure the recovery will hold?

Which stock(s) in your portfolio are you excited about today?

Hello, I am starting to invest for retirement very late in life. I'm 55 and would like any help or suggestions on stock investments that would help me obtain my goal in the next 10 years.

New year – new opportunities

The start of a new year is a great time to reassess your savings goals and plan to make the most of your annual contributions to registered savings plans. Here are some dates to keep in mind with regard to Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs) and Registered Education Savings Plans (RESPs).

RRSP contribution deadline: You have until March 3, 2014 to make an RRSP contribution for the 2013 tax year, provided it's within your contribution limit.

New contribution room for your TFSA: Every January 1, new TFSA contribution room is added for all Canadians over the age of 18. For 2014, the limit is $5,500. TFSA contribution room is cumulative and carries forward automatically. As a result, if you were 18 or older when the TFSA was introduced in 2009 and you've never opened one, starting January 2014, you can contribute up to $31,000.

Visit the My Account section of the CRA website or call their Tax Information Phone Service (TIPS) at 1-800-267-6999 for your specific RRSP or TFSA contribution limit.

Investing in your child's future: If you are contributing to an RESP for a child's or grandchild's education, the lifetime limit is $50,000 per child. The first $2,500 contributed annually qualifies for the 20% Canada Education Savings Grant (CESG), to a maximum lifetime CESG of $7,200. Some provinces offer additional grants, and lower and middle income families may receive more than 20% matching.

Tools to help you plan: Registered accounts are a great way to save for specific goals. To help you stay on track, you can set up a goal on the online investing site. Visit the **My Portfolios** tab and select "Manage My Goals" to get started.

Make it easy – with pre-authorized contributions

Make saving even easier with a pre-authorized contribution (PAC) to your RRSP, RESP, TFSA and investment accounts. Set it up once to make automatic contributions throughout the year to help you keep on track and reach your goals. Plus, if the combined assets across all of your accounts are under $15,000, the quarterly maintenance fee is waived when you make a monthly contribution of $100 or more. To set up a PAC, go to the **My Portfolios** tab, select "Transfer Funds" and click the *Pre-Authorized Contribution (PAC)* sub-tab.

Gain perspective – with new technical analysis research

This is the first in a series of articles focusing on research and the vital part it can play in your investment decision-making.

Research is an important part of the investing process for all investors. Having access to detailed, reliable research and analysis can help you make more informed decisions about your portfolio.

This year, *Direct Investor* will feature articles that will highlight research resources you can use to help you make informed investment decisions. In this edition we'll discuss technical analysis from Recognia‡.

Technical versus fundamental analysis

Historically, investors have relied on two complementary types of analyses: technical and fundamental.

With fundamental analysis, investors try to gather as much *fundamental* information as they can to better understand a company and help determine the value of its stock. For example, an investor using fundamental analysis in their research would examine information such as the company's financial statements, its products, the market in which it operates, its competitiveness and the management team that guides the business. Fundamental analysis will be discussed in more detail in a future issue of *Direct Investor*.

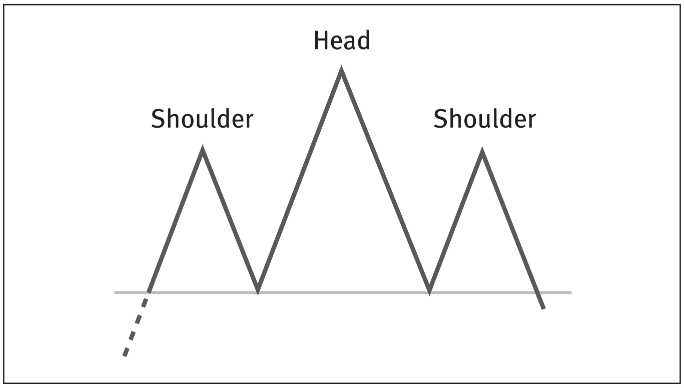
Technical analysis, by contrast, is based on analyzing a company's trading history. The focus is to identify a stock's past movements and trading volumes in an effort to help predict its future.

Technical analysis from Recognia

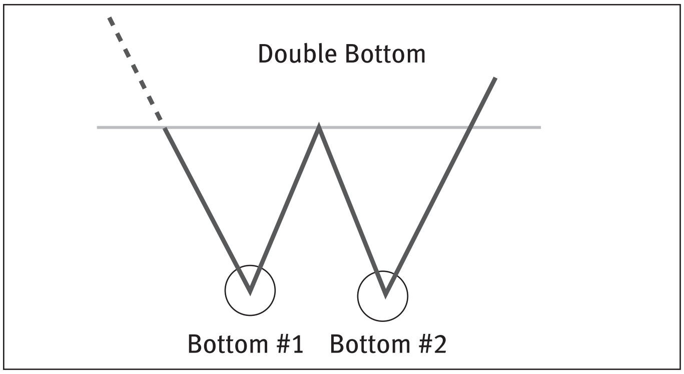
With access to technical analysis from Recognia, you can gain a perspective on the market performance and patterns of Canadian and U.S. stocks, exchange-traded funds (ETFs) and indices. This can help you spot investment trends, find new opportunities, validate investment decisions and manage risk. Highlights include:

- **Featured and most-viewed technical events:** You can view featured technical events – a top-rated list of recently formed bullish and bearish events regarding stocks that are poised to make a move – to help you generate potential trading ideas. Alternatively, if you're interested in events that other investors are currently looking at, a daily list of the most popular bullish and bearish technical events is available for you.
- **Become a more knowledgeable investor:** If you're new to using automated technical analysis or if you'd like to gain a broader understanding of how to use it to help you choose potential investments, the Technical Analysis Education section features detailed descriptions, characteristics and trading considerations for various chart patterns.

To assist clients using a technical analysis approach, chart analysis offers a visual representation (based on patterns) of where a particular stock has been and where it might be headed. Examples of some common patterns include "head-and-shoulder top" and "double bottom."



A "head-and-shoulders top" is considered a bearish signal. It indicates a possible reversal of the current uptrend to a new downtrend.



A "double bottom" is considered a bullish signal, indicating a possible reversal of the current downtrend to a new uptrend.

Technical analysis can be a valuable source of information to consider when making a trade or investment decision, especially when used in combination with other forms of research.

Try this new resource today. Go to the Markets tab and select the new Technical Analysis menu. For security-specific information, visit the Quotes & Research tab and click the new *Technicals* sub-tab on the "Detailed Quote" page.

Market Outlook

Provided by RBC Global Asset Management Inc. on December 13, 2013

Over the past five years, the after-effects of the financial crisis have been the dominating influence on the market, reflected in low nominal interest rates and, until recently, below-average stock valuations. The process of normalization has continued in both the global economy and financial markets, encouraged by fading fiscal austerity, rising risk appetite and the emergence of bold structural reforms designed to uncover new sources of economic growth. It appears that a regime change has occurred as interest rates have largely normalized, equity valuations appear close to fair value, and some critical headwinds to the recovery are either less important or have fallen away completely.

Macro trends remain fairly good

Economic leading indicators point to slightly better-than-normal economic growth in the coming year, a welcome change after years of sub-par activity. In the U.S., in particular, there is good reason to expect the economy to accelerate into 2014 as the initial hit from higher rates is consequential, but not devastating, and U.S. housing retains considerable upside despite its recent wobbles. Economic data is no longer exceeding expectations as readily as it did over the summer, but this is mainly because economic prognosticators have revised their outlooks higher, as opposed to any deterioration in the data itself.

A central theme from the past quarter was the outperformance of developed nations versus emerging markets. While the divergence has moderated somewhat, consensus GDP forecasts have continued to rise for developed countries and fall for emerging markets over the past three months. Our own economic forecasts have remained ahead of this trend, with favourable outlooks for several developed nations and below-consensus calls for emerging markets.

Political complications present a risk to our forecasted economic trajectory. For emerging markets, the main challenge is a bumper crop of elections in 2014 that are stifling needed but unpopular economic reforms in India, Indonesia and Brazil. As a result, these countries have among the least upside in 2014 until they can set aside election-motivated populist considerations. In the developed world, the challenges are more varied. For Europe, a key risk remains the unpopularity of fiscal austerity and the structural reforms that generally go with it. In the U.S., the 17-day government shutdown in October and debt ceiling near-miss provided the latest chapter of political discord between Republicans and Democrats ahead of midterm elections in the fall of 2014. Another continuing resolution to fund the government will be needed by January 15, 2014, and the debt ceiling will have to be raised again at some point over the first half of the year.

Tapering coming soon?

The Fed appears to feel some anxiety about the extent of its bond buying, and recent Fed minutes continue to reveal a desire to taper fairly soon. However, after its surprise non-taper in September, there is no longer much clarity on the criteria that the Fed is using to signal the start of tapering. The imminent arrival of a new Fed chairman in the form of Janet Yellen is unlikely to materially change this trajectory. Yellen appears to have dovish inclinations, but not necessarily any more profound than current Chairman Bernanke. Our expectation is for tapering to begin in late 2013 or early 2014. However, any hike in short-term policy rates likely remains several years away.

When the taper does eventually arrive, there should be several repercussions. Bond yields may again edge higher, though the bulk of the anticipatory action has already occurred. Equities are unlikely to benefit from such action in the short run, but the fact that the Fed is responding to a future of enhanced economic growth should eventually balance the score. The more vulnerable emerging markets – those with significant current-account deficits, in particular – could suffer another round of capital outflows with assorted consequences.

The U.S. dollar bull market is still in its early stages, with the 10% rise over the past two years taking it about one-third of the way through a typical six-year bull market. The greenback's strength has been confirmed by weakness in all major currencies with the exception of the euro, which performed better than many investors expected. However, we believe that the single currency will eventually be dragged down by deterioration in Eurozone growth and inflation, and the resulting consequences for monetary policy. The euro weakness versus the U.S. dollar will likely be more acute than for the British pound, the Canadian dollar and the Japanese yen. Occasional setbacks for the

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greenback are to be expected, but the U.S. dollar should continue to rise, with the pace and intensity of the change varying by currency.

Bond yields stabilize

Bond yields are essentially unchanged over the past quarter, after having risen materially last spring. The correction happened in a few short months, and real and nominal interest rates are now trending close to levels indicated by our models. We continue to look for moderately higher bond yields over the coming year for several reasons. First, the Fed should begin tapering shortly, leading to a further increase in yields. Economic growth appears set to accelerate and this is a classic driver of higher interest rates. Finally, inflation should edge higher, further stimulating yields. However, there is a limit to how quickly or how much further yields can rise as there is a self-correcting mechanism in place – when yields rise too far, the economy suffers and central banks soften their tone which helps to pull bond yields back down.

Moderating return expectations for equities

Global stock markets continued to rally through 2013. Equities have taken clear inspiration from the ameliorating economic environment, bringing equity-market valuations toward historically normal levels. Much of the rally this year has been due to expanding P/Es, as the market removed the valuation discount associated with lingering risks from the financial crisis. At this level, valuations are close to the long-term average and near equilibrium. Earnings growth has been lagging for some time, which isn't all that surprising given the economic headwinds that corporations have faced. While equity markets can continue to rise on the premise of future earnings growth, stocks are more volatile when prices depend on high valuations rather than corporate earnings. There is some evidence, however, that earnings growth could begin to pick up. Companies continue to cut costs and invest in productivity, and an uptick in global growth would certainly be positive for corporate bottom lines. Going forward, the improved macroeconomic environment should continue to be a tailwind for stocks, but we recognize that strong gains in recent years and much less favourable valuations means that we need to moderate our total-return assumptions going forward.

Taking advantage of trading opportunities

With both stocks and bonds moving closer to fair value, we have shifted to a more neutral asset allocation, although still with a tilt to equities. While yields are likely to shift higher as monetary stimulus is removed, much of the correction was likely completed over the summer. During the summer, we adjusted our bond weighting much closer to the neutral allocation, closing off the extreme underweight position we held when yields were near all-time lows. Over the most recent quarter, we have kept our fixed-income allocation stable. When stock markets recently dipped over concern about the debt ceiling, we added two percentage points to our equity weight to take advantage of the buying opportunity. We recently closed off that trade following the subsequent rally. For a balanced, global investor, we recommend an asset mix of 58% equities (strategic neutral position: 55%), 38% 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.

New features for options investors

If you're an existing options trader or you are thinking of adding options to your investment portfolio, take note of these recent enhancements.

Mini options

Mini options are designed for investors with a smaller amount to invest who want exposure to options trading on high-priced stocks. They share similar terms and contract features with traditional or standard options contracts but are one-tenth the size. The commission rates to buy or sell mini options are the same as standard options contract rates.

Each mini option represents 10 shares of an underlying stock versus 100 shares for a standard contract. With the smaller size, the entry cost to trade mini options is also lower – making them an attractive alternative for investors with smaller portfolios.

Securities available

Mini options are available with the following securities: Apple (AAPL), Amazon (AMZN), SPDR Gold Trust (GLD), Google (GOOG) and SPDR S&P 500 ETF Trust (SPY). They can be distinguished from standard options symbols by the number 7, which is added to the underlying security's symbol, e.g. AAPL7.

Enhanced filtering capabilities

In addition to introducing mini options, the viewing and filtering capabilities for options have been improved.

You can now filter options contracts by standard or mini, see an options quote for a specific strike price over multiple expiration dates, and get "at-a-glance" detailed options quote information by clicking an options symbol from your Watchlist, holdings or the order entry page.

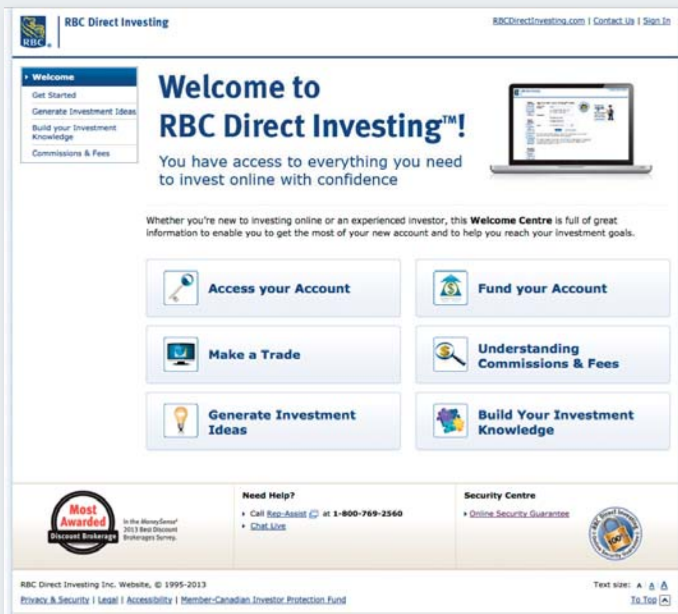
To use these new features, enter a symbol or company name in any Quotes & Research box, and then click the *Options* sub-tab on the "Detailed Quote" page.

And, for more information about options, visit the **Investment Products** tab and select "Options" or go to the **Markets** tab and select "Market Insight" to read the Option Income Generator under the Morningstar Pick List section.

Welcome Centre – a convenient online resource

Are you new to RBC Direct Investing and want to know how to fund your account or make your first trade? Or, have you been investing for a while and want to increase your knowledge? If this sounds like you, the Welcome Centre is a great place to start. It was created specifically to help you get the most out of your account and reach your investment goals by highlighting some of the features, tools and resources available to help spark potential new investment ideas and build your investment knowledge.

The Welcome Centre is easy to navigate, making it simple for you to quickly find the information you need. Make a point of visiting the Welcome Centre today at rbcdirectinvesting.com/welcome.



A message from Rosalyn Kent
President and CEO, RBC Direct Investing Inc.

I'd like to take this opportunity to thank you for choosing RBC Direct Investing and for sharing your comments and insights with us. Based on your input, we are always refining and improving the tools and features you need to help you make informed investment decisions.

This past year has been an exciting one, marking some important milestones and the introduction of new features and enhancements. Here's a quick look at some of the highlights.

As the article on page 3 mentions, we're celebrating the first anniversary of the RBC Direct Investing Community. Driven by the open sharing of ideas and knowledge from investor to investor, it is a community in the true sense of the word. I look forward to its continued growth, and to more connections and deeper discussions among our investors in 2014.

Series D mutual funds have a new minimum investment as low as $500. They were also expanded to give do-it-yourself investors added choice and easier access. Turn to the front page for details.

RBC Direct Investing accounts became an eligible product to help you qualify for the MultiProduct Rebate®, which rewards you for your business by reducing your monthly RBC® banking account fees.[5]

We were very pleased to be recognized in 2013 by MoneySense‡ magazine as one of Canada's best online brokerages, with accolades in four of the five categories reviewed.

For 2014, our goal is to continue delivering new tools, resources and enhancements to improve and support your investing experience. Again, thank you for choosing RBC Direct Investing. I wish you a successful 2014.

RBC Direct Investing

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[1] 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.

[2] Mutual fund companies may assess additional fees – for example, deferred sales charges on back-end load funds, early redemption fees, setup fees and insufficient funds on pre-authorized purchases.

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

[5] Only one MultiProduct Rebate per banking account. The amount of the MultiProduct Rebate and the number of products required to qualify for the MultiProduct Rebate vary depending on the banking account. An eligible RBC Direct Investing account with a balance greater than $1 is a qualifying product for the MultiProduct Rebate. An RBC Dominion Securities account or investments in the account do not qualify for the MultiProduct Rebate. MultiProduct Rebate does not apply automatically where ownership of the account and the qualifying products differ. The eligible RBC products and account must be in the same geographic location (region). Other conditions apply. For more information visit any RBC Royal Bank® branch, call 1-800 ROYAL® 1-1 or go online to www.rbcroyalbank.com/products/deposits/multiproduct-rebate.html.

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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.

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