

# Investment UPDATE

## Investment discipline key to success

This past quarter was no fun for investors with exposure to equity markets. A drop in commodity prices strongly impacted Canadian markets, while troubles with U.S. financial companies like Lehman Brothers and American International Group Inc. impacted markets all over the world. Even if high levels of volatility continue in the period ahead, as always the most important thing for any investor is to avoid acting on emotions. Maintaining your investment discipline by focusing on time-tested investment principles can improve your long-term odds of success. Often it is decisions made at times like these that ultimately determine how successful investors will be in meeting their financial goals.

### DIVERSIFY

While long-term investment returns tend to increase with the level of risk taken, it is also true that investors are unlikely to be rewarded for taking risks they could have reasonably avoided or diversified away. These risks arise from being concentrated in too few stocks or in too few markets. For example, prudent investors do not have to accept the high degree of concentration on the Resource

and Financial sectors that is inherent in the makeup of the Canadian stock market. By diversifying their portfolios to include businesses and sectors not well represented in our domestic market like Consumer Staples, Health Care, and Utilities, this risk can be reduced. Investment solutions like RBC Select Portfolios give you access to a well-diversified portfolio in one comprehensive solution.

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## Investment discipline key to success *continued*

### **FOCUS ON QUALITY**

In our view a hallmark of any sound investment discipline includes a consistent methodology that identifies high quality companies with market-leading positions and strong management teams capable of adapting to changing environments. Our own approach relies on the use of complementary methods of analysis that evaluate securities from a number of different perspectives to identify these companies.

### **THINK LONG TERM**

For investors with a long-term focus, the opportunity to be invested or remain invested at levels well below market highs is far more important than recent short-term fluctuations. If you have money to invest but are concerned about making a poorly timed decision, a regular investment plan is a good way to ensure that your investment dollars are moved into the market over time. Ask your advisor about our pre-authorized payment plans and auto-switch capabilities.

### **REVIEW RISK TOLERANCE**

The decision of how much cash, bonds and equities to hold is a personal one based on your risk tolerance and time horizon. After five years of low volatility and strong equity returns leading up to fall 2007, it may have been easy for many investors to let their perceptions of their own risk tolerance drift higher with the markets. On the other hand, investors face the risk of limiting their portfolio's growth potential if they allow recent events to let their risk tolerance become too conservative. It is important to review your risk tolerance and asset allocation with your advisor at least once a year.

### **DIVERSIFY | FOCUS ON QUALITY | THINK LONG TERM | REVIEW RISK TOLERANCE**

These are the basic disciplines that investors should follow in good times and bad. They recognize that while there are many aspects of investing that are beyond our control, there are constructive things investors can do to help increase their longer term odds of success. For any market updates, visit the News section at [www.rbcam.com](http://www.rbcam.com).



# The one-minute market update

## EQUITY MARKETS

- › Following recent declines, major world markets all lie below valuation levels consistent with durable economic growth, mild inflation and low interest rates.
- › Lack of clarity in the economic outlook and earnings growth remain a threat, but improving conditions as they appear, will open up scope for significant gains from stocks.

## FIXED INCOME MARKETS

- › Bond yields at levels indicating a probability of recession, driven by growth worries and risk aversion.
- › As a more balanced view of economic prospects and risk in general emerges, yields are likely to continue to climb, perhaps sharply. A scenario of rising bond yields adversely affects fixed-income investors.

## IMPLICATIONS

- › We are leaving equities overweight as our baseline economic view and stock market valuations suggest significant upside as credit crunch passes & risk premiums normalize.
- › Bond exposure remains below 'neutral' level as valuations remain unattractive.

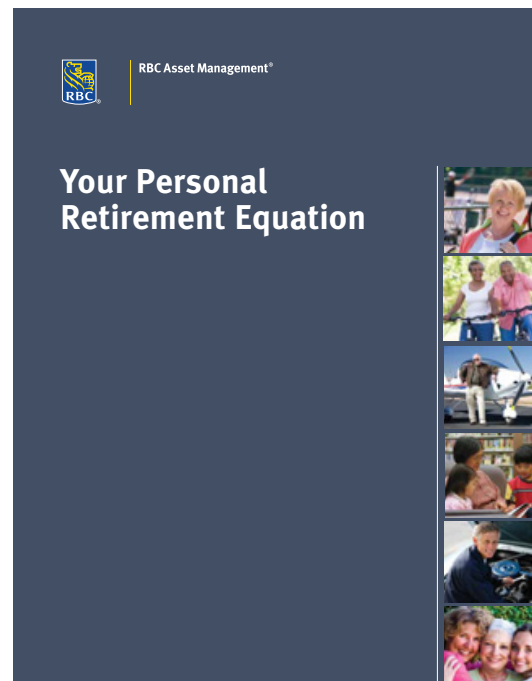
## Planning for your retirement? So are we!

Thinking about retirement or know someone who is? At RBC, our goal is to make retirement planning easy for you and for those you care about.

To help, we're pleased to introduce a comprehensive new guide called **Your Personal Retirement Equation**. Using this guide with the help of your RBC advisor will start you thinking about what you need to consider in order to achieve greater financial security and certainty in retirement.

Your Personal Retirement Equation helps answers key questions, such as:

- › How much money will I need in retirement?
- › Where will my retirement income come from?
- › What do I need to know about longevity, rising prices, health care costs and tax planning?
- › Who can I go to for help?



Contact an RBC advisor today for your personal copy or for a copy to pass along to someone else who has retirement top of mind. It's never too soon, or too late, to start thinking about planning for retirement.

## Market outlook

One year after the credit crunch began, market conditions remain deeply depressed. What began as a valuation problem in the sub-prime housing and securitization market has touched virtually every lending and borrowing pocket of the financial system.

### ECONOMY EXPANDS BUT GROWTH DEFINITELY SLOWING

Economic growth so far this year has shown surprising resilience, defying even the loftiest expectations. There's no question that the credit crisis remains a serious challenge to the economy. While a negative real fed funds rate is accommodative, borrowing costs, credit availability, asset prices, risk preferences and the capital needs of financial intermediaries are all imposing varying degrees of restraint. At the same time, an end to the crisis would pose substantial risks for fixed income investors — including those who have ejected corporate credit from their portfolios to weather the current storm. In the U.S., strength in the first half of the year as well as further improvement in the terms of trade leave us comfortable with our 2008 growth forecast of 1.75%. We have cut our 2009 forecast to 1.5% as the economy passes through a brief and mild recession in the fourth quarter of this year through the early months of 2009. We expect Canadian growth to slow to 1% this year before gaining traction late next year.

### ENCOURAGING SIGNS ON THE INFLATION FRONT

On balance, even as reported inflation remains high, there are encouraging signs that one of several key threats to the U.S. economy is beginning to subside. The retreat in

oil prices has begun to steady the U.S. dollar, perhaps signalling a broader lift in investor confidence that will be needed to put the economy back on track in 2009. With commodity prices likely past their peak, headline inflation rates are set to fall sharply by year-end.

### CENTRAL BANKS STILL HAVE FIREPOWER

Recognizing the scale of threat posed by sliding real estate prices and negative feedback loops within the financial system, the Federal Reserve has been swift and deliberate. Short term interest rates have fallen 3.25% and the domestic money supply is growing rapidly. Systemic risk is being mitigated with a variety of responses ranging from broadening the types of institutions granted access to the Fed's discount window and expanding acceptable collateral to forcing bank shutdowns, mergers or providing emergency backstop funding.

In Europe and the U.K. too, where the credit crisis is intensifying, central banks and government agencies are now taking aggressive action to limit the fallout. The Bank of Canada is likely to stand pat with a small bias to cut rates as weak U.S. demand coupled with a stronger Canadian dollar increase the drag on GDP from deteriorating trade conditions.

### BONDS OVERVALUED; YIELDS SHOULD RISE AS CREDIT CRUNCH ABATES

Fuelled by a flare-up in concern over the health of the financial system, massive risk aversion and downward revisions to global growth, bond yields have plunged over the past quarter. Valuations remain at extreme levels, lying below their equilibrium bands in all major regions. In the U.S., the drop in yields is the second largest on record through any easing cycle since the early 1950s and implies a much deeper and prolonged slowdown than is likely to emerge. As the credit crunch begins to abate, risk premiums normalize and the economy responds to lower rates, bond yields should move to levels consistent with moderate growth, leaving them vulnerable to significant upside pressure.

### STOCKS SHOW SOLID VALUE AND POTENTIAL

The crisis environment of the past year still shows few signs of clearing, so the way ahead for stocks is unusually murky. Nevertheless, valuations based on *normalized* profits and P/E ratios reflect a level of pessimism that hasn't been seen since the great bull market began in the early 1980's. As we view the recent spike in inflation to be transitory and primarily the result of sharp increases in energy prices, which have now reversed, *winning conditions are very much apparent with stocks far below fair value. Risks are evident, but so is the potential for superior returns.* At a minimum, as confidence is ultimately restored, stocks should return to fair value, a climb that would produce double-digit returns.

*Provided by RBC Asset Management*

# Coming Soon: Tax-Free Savings Account

## GET READY FOR A NEW WAY TO GROW YOUR INVESTMENTS

Starting January 2009, you will have another great way to grow your investments with the introduction of the new **Tax-Free Savings Account** (TFSA). Although contributions are not tax deductible, all investment returns in the account whether interest, dividends or capital gains are not taxed, even when withdrawn. A TFSA is flexible and can help you to reach both short- and long-term investment goals.

Canadian residents 18\* years or older accumulate \$5,000 of TFSA contribution room each year in addition to their RRSP contributions. Unused TFSA contribution room can be carried forward indefinitely. Withdrawals are added to unused contribution room starting the following year, so you can re-contribute whenever you have the money.

## RBC IS HERE TO HELP

RBC offers a wide choice of TFSA investment options, including RBC Funds, RBC GICs and RBC Savings Deposits. You can always use TFSA-Matic™ to make regular ongoing contributions to your account. Plus, there are no TFSA withdrawal or administration fees with RBC.

The TFSA is a great new tax-sheltered account, and with the right advice, it can help you achieve your investment goals. But it all depends on your personal goals and situation. TFSA can be a great compliment to your RRSP, for example, if you've used your RRSP contribution room or cannot make RRSP contributions, the TFSA could be a solution for you. Talk to an RBC advisor to create a plan based on your needs.

**Tax-Free  
Savings Account**



**Coming  
January  
2009**

For more information on the **Tax-Free Savings Account** and to find out how RBC can help you reach your financial goals, visit your local branch, call us at **1-800-463-3863** or visit our website at [www.rbc.com/tfsa](http://www.rbc.com/tfsa).

\* The age of majority is 19 for residents of certain provinces and territories which may delay the opening of a TFSA. However, the accumulation of contribution room will start at age 18.

## 2008 Dalbar Seal for Communication



At RBC, we make every effort to provide you with comprehensive yet easy-to-understand information on the status of your accounts. That's why we're pleased to announce that the RBC investment statements have been awarded the

2008 Dalbar Seal for Communication. This award recognizes statements that excel at meeting client needs.

The RBC investment statements are designed to provide you with information needed to track the progress of your investments and see how your portfolios are working towards your financial goals.

## Great rate GICs

**CONSIDER TAKING ADVANTAGE OF A LIMITED TIME OFFER ON OUR 2-YEAR AND 4-YEAR GICs\***

Guaranteed investment certificates (GICs) can play an important role in a diversified investment portfolio for the secure, stable returns they provide. To help you save for your investment objectives, we're offering special rates on our 2-year and 4-year non-redeemable GICs.

**To take advantage of this limited time offer, talk to your RBC advisor, visit your local branch or call 1-800-769-2511.**

# 2008 tax planning. It's not too late.

## ARE YOU DOING ALL YOU CAN TO MINIMIZE YOUR TAX BILL?

With a few months left before year-end, there's still time to consider what you can do to save money on your 2008 tax return. Here are a few tips that may help:

**Contribute to your RRSP.** Making the maximum contribution to your registered retirement savings plan (RRSP) is still one of the best ways to minimize your taxes. Check your allowable contribution room for 2008 — it's listed on your Notice of Assessment from Canada Revenue Agency. If you can't make a lump-sum contribution right away, consider making regular contributions throughout the year with RBC Royal Bank® RSP-Matic®.

**Don't forget RESPs.** Contributing to a registered education savings plan (RESP) is a smart way of saving for a child's future as an RESP combines flexibility, tax-deferred investment growth and direct government assistance to help you reach education-savings goals.

**Split income.** You can transfer up to 50% of your eligible pension income to a lower-income spouse or common-law partner for tax purposes. This includes income from

a registered pension plan, an RRSP annuity, a retirement income fund (RIF), a locked-in RIF (LRIF) or a life income fund (LIF). Equalizing your income with your spouse can produce tax savings.

**Take a tax loss.** If you've realized capital gains on any investments this year, consider selling some that have fallen in value to realize a tax loss, which can then be used to reduce your capital gains — provided that this fits your long-term investment and financial plans.

**Plan your charitable giving.** Charitable donations must be made before year-end to qualify for the tax credit in 2008. Now's the time to plan your gifts, co-ordinate those plans with your spouse or partner, and consider whether to donate securities that would otherwise produce capital gains and would be subject to tax.

**Speak to a tax specialist or an accountant for more detailed information on tax planning. To review your financial plan for the current year and to adjust your plan for changes expected in 2009, visit your local RBC branch to speak to an RBC advisor or call 1-800-769-2511.**

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### \* GREAT RATE GICS TERMS AND CONDITIONS:

Offer as of September 30, 2008 and may be changed or withdrawn at any time without notice. Offer applies to specific terms of the non-redeemable GIC only. Interest rates are per annum. Non-registered and registered are eligible. Available to personal clients only. Subject to applicable GIC product minimums. Offer not available through online banking or for GICs with instruction to auto-renew at maturity. Not offered in conjunction with any other rate bonus or promotion.

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