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Investment UPDATE

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Sow the seeds of tax savings this fall

A recent study* concluded that Canadian families are paying out far more of their income in taxes than ever before. Fortunately, many of the ways to help reduce your tax bill are simple and straightforward – and can save you a bundle next tax season and beyond.

TAX PLANNING CAN HELP

Over the past 50 years, the average Canadian family's total tax bill – covering everything from income and sales to property taxes – has increased at a much faster rate than the costs for such basic necessities as food, clothing and shelter. In fact, today their tax bill totals more than all three of these necessities combined.

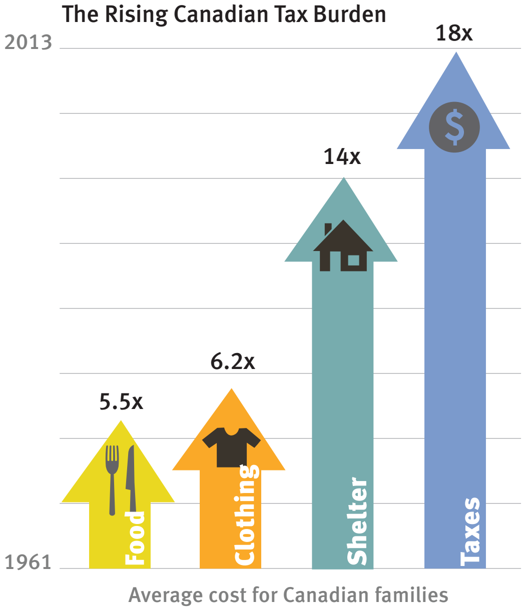
While your taxes pay for many benefits, effective tax planning is important. It helps you start early and take advantage of available tax credits and deductions. Over the long term, tax planning helps ensure that you are using tax-sheltered investment accounts and tax-efficient investment solutions to grow your savings faster.

GET A JUMPSTART ON YOUR 2014 TAXES

While April's tax filing season seems a long way off, there are a number of tax-efficient strategies to take advantage of before year end that can pay off with a bountiful crop of tax savings in the spring.

* *Taxes versus the Necessities of Life: The Canadian Consumer Tax Index*, 2014. Charles Lammam, Milagros Palacios, Fraser Institute, August 2014.

The Rising Canadian Tax Burden



Source: The Fraser Institute, August 2014.

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Here are some common tax planning steps that you can take before December 31

Organize and finalize general deductions and credits

- ☐ Medical expenses for you and your dependants.
- ☐ Physical fitness registration and membership fees for your children under 16 years of age.
- ☐ Registration and membership fees for artistic, cultural, recreational or development activities for your children under 16 years of age.
- ☐ Public transit costs incurred by you and your family.
- ☐ Eligible tuition fees and interest paid on student loans.
- ☐ Charitable and political donations.
- ☐ Home buyers' tax credit on eligible new home purchases.

Investment-related deductions

- ☐ Investment costs – Interest on investment loans, investment advisory fees and broker fees.
- ☐ Capital losses – Reduce or eliminate taxes on capital gains realized in 2014 (or 2013, 2012 and 2011) by selling investments with accrued losses.

Contribute to your ...

- ☐ Registered Retirement Savings Plan (RRSP) up to the first 60 days of 2015. Turning 71 in 2014? You are required to convert your RRSP to a Registered Retirement Income Fund (RRIF) and make your final contribution by December 31.
- ☐ Tax-Free Savings Account (TFSA) to earn tax-free investment income.
- ☐ Registered Education Savings Plan (RESP) and/or Registered Disability Savings Plan (RDSP) to maximize eligibility for tax savings and grants.

Note: The above does not constitute tax advice and is provided for information purposes only. Please consult a tax expert to ensure you receive appropriate tax guidance.

TAKE THE ROAD LESS TAXING

While many strategies can reduce your tax bill, using the right investment savings accounts and solutions can make a significant difference by helping grow your savings faster.

The primary savings goal for most Canadians is funding their retirement. A tax-sheltered RRSP is often the ideal savings account to help reach this goal. Contributions to an RRSP can reduce your current tax bill by providing a tax deduction. And an RRSP account shelters your investment income – interest, dividends or capital gains – from taxes. This can significantly contribute to the growth of your savings over time.

HARVEST YOUR PORTFOLIO FOR CASH FLOW

For savings that cannot be tax sheltered through an RRSP or TFSA, there are other tax-efficient investment solutions that can help minimize the tax bite of income-producing portfolios.

If you are in need of income, ensuring that the mix of non-tax-sheltered investments you hold are structured to maximize your cash flow can be critical to achieving your retirement lifestyle.

Talk to your RBC advisor today to sow the seeds of tax savings now so that you can reap the rewards in April – and for years to come.

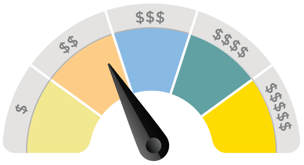
Adjusting your investment levers for financial success

Achieving your long-term financial goals begins with a flexible investment plan. Saving for a major goal – like your first home, your child's post-secondary education or your retirement – requires planning. It is important to know how much you need to begin saving today to support your goals for tomorrow.

Generally, the more you save early on, the less you will need to save in the future to achieve the same goal as someone who invested more over a shorter period of time. It all starts with an investment plan that is flexible enough to accommodate your changing needs.

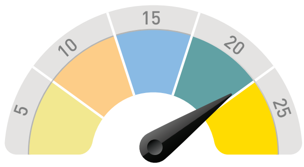
ADJUSTING YOUR PLAN TO MEET YOUR NEEDS

It is important to keep in mind that an investment plan is dynamic, not static. There are many "levers" that can be used to help you better meet your goals. Here are three of the main ones:



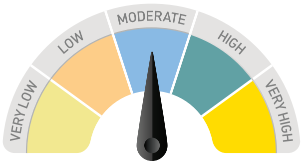
Lever #1: How much you invest

If you are concerned about not having enough savings to meet your goals, an option to consider is adjusting how much you contribute on a regular basis. A relatively small increase in regular contributions can have a significant impact over the long term.



Lever #2: How long you invest

If you are concerned about not building up enough wealth to meet your desired goal, you can extend your investment time horizon. On the other hand, if you feel you have enough wealth to meet your goals, you may be in a position to shorten your investment time horizon.



Lever #3: How much risk you take on

Generally, with investing, the more risk you take on, the greater your potential returns. Your risk profile is an important building block of your investment plan. Increasing risk also increases the risk of losses, so this third lever should be shifted very carefully in discussion with your advisor to ensure that your investment portfolio is consistent with your risk profile.

Talk to your RBC advisor about creating an investment plan that ensures you are saving enough today to reach your future goals.

ONE-MINUTE MARKET UPDATE

For a summary of the Fall 2014 Investment Outlook, please visit rbcgam.com/investment-outlook.

ECONOMY

- The secular outlook for global growth has stabilized and leadership has clearly shifted to the U.S., where a durable, if somewhat subdued, economic expansion is unfolding.
- Global growth is moderate and challenges remain, but many of the headwinds that defined the post-crisis investing environment have diminished or disappeared.
- That said, a number of new risks have surfaced. The most critical, at least with regard to the global economy and financial markets, relate to military conflicts in Ukraine, Iraq and Israel-Gaza, and public health emergencies, such as the Ebola virus of West Africa and the Middle East Respiratory Syndrome. Upcoming elections and referendums will bring additional uncertainty.

EQUITY MARKETS

- Global equity markets have come a long way since the financial crisis.
- With valuations now much more full, markets will likely require a pick-up in corporate profits to propel stocks higher. Conservative profit forecasting by analysts continues to provide fuel for the bull market, and we may now be seeing signs that earnings growth is poised to accelerate.
- While we are respectful of the growing risks of a correction as equity prices rise, the outlook for economic growth and corporate profits continues to favour stocks.

FIXED INCOME MARKETS

- Global bond yields remain stubbornly low. While the forces justifying lower yields are significant, sustainable global growth has taken root following a long period of repair and recovery.
- We continue to look for moderately higher bond yields over the coming year, and this will likely lead to a period of price correction and low or negative returns for sovereign fixed income markets.
- The speed of the rise in yields shouldn't be extreme given the damage that was done by the 2013 "taper tantrum," and given the likelihood that many investors will find rising yields irresistible in a low-return world.

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[1] The return on the RBC Market*Smart* GIC is expressed here as an interest rate per term and depends upon the performance of the equity index to which it is linked. The amount earned will depend on the performance of the equity index up to a maximum return of 9% per term for the 3-year RBC Market*Smart* GIC. You are guaranteed a minimum return of 1.5% per term for the 3-year RBC Market*Smart* GIC. Offer valid until October 31, 2014. For full product details, including how the return is calculated, please visit www.rbcroyalbank.com/products/gic/marketsmart-suite.html, or call 1-800-769-2511.