Spring Edition | April 2013

28263 (04/2013)

Investment UPDATE

It's umbrella season!

The arrival of spring showers may have many of us reaching for our umbrellas to take shelter from the rain. But spring also means tax season, when we look for a different kind of umbrella — one that can help us tax shelter our investments.

No matter your tax situation or investing goals, speaking with your RBC® advisor about how to invest to reduce or defer your taxes through smart planning is just as important as what to invest in.

For the average investor, there are two planning tools to help reduce the taxes paid on investments:

1. The type of account you hold your investments in.
2. The type of investments you own.

Investing in various tax sheltered (registered) accounts

A Registered Retirement Savings Plan (RRSP) and a Tax-Free Savings Account (TFSA) are two types of widely used accounts that allow your investments to grow and compound tax-free.

- Designed specifically as a retirement vehicle, an RRSP provides benefits for different stages of your life. By contributing to an RRSP during your working career, you'll realize tax benefits at a time when your tax bracket is generally higher. The tax consequences of withdrawing funds prior to retirement will motivate you to keep investments in an RRSP for the long term (i.e. until retirement, when your tax bracket will likely be lower).

The maximum contribution to an RRSP per year is 18% of your earned income in the previous year (up to a maximum of $23,820 for 2013) plus unused contribution amounts from previous years, but less any company-sponsored pension plan contributions.

And, contributions to an RRSP are tax deductible, generally resulting in added tax savings (when you file your tax return).

Continued on page 2

In this issue

- On the other hand, a TFSA is a flexible investment account that can complement your retirement savings. It's also a great way to save for other goals, like a major renovation or a vacation.

  The maximum contribution for 2013 to a TFSA is $5,500. However, unlike an RRSP, TFSA contributions are not tax deductible; meaning, they don't reduce your income and therefore don't provide tax savings when you file your tax return. Withdrawals from a TFSA are tax-free. In addition, after the calendar year of withdrawal, you can re-contribute the amounts you withdrew.

Investment solutions that offer some tax advantages

If you need to generate monthly cash flow from your investment portfolio, you'll want to ensure the income is tax efficient. Here are two professionally managed investment options that generate tax-efficient cash flow.

RBC Managed Payout Solutions

These funds generate a target payout of 5%, 6% or 7% per year* while working to preserve an investors' capital over the long term. RBC Managed Payout Solutions balance trade-offs to deliver predictable, tax-efficient distributions.

- **Sustainable cash flow:** Reviewing the payout on an annual basis reinforces the ability to generate sustainable and predictable cash flow while also managing the impact of the payout on invested capital.
- **Tax-efficient distributions:** Payouts consist of interest, dividends, capital gains and return of capital, resulting in a higher after-tax cash flow relative to typical fixed income investments that pay only interest income.
- **Liquidity:** Investors may access their capital in the event of emergencies. Their capital is not locked in and is available for withdrawal if needed.
- **Growth Potential:** Equity exposure provides the greatest potential for capital appreciation to help your investment keep pace with inflation over the long term. Equity exposure ranges from 25% to 55% across the three RBC Managed Payout Solutions.
- **Choice:** Investors can choose the payout level that fits their income needs and lifestyle goals with 5%, 6% or 7% payout options.

Series T5

A number of RBC Funds, including RBC Select Portfolios, are offered in a T5 Series that pays a tax-efficient 5% annual monthly payout.* The T5 option of an RBC Fund would be most appropriate for investors who are:

- In retirement and ready to start drawing from their non-registered investment;
- Looking to establish steady, tax-efficient cash flow;
- Expecting to be in a lower tax bracket in future years; or
- Concerned about the clawback of government benefits.

Selecting the right umbrella

With all of the tax savings choices available, it's important to get the right advice to meet your investment goals. To ensure that you have the right umbrella you need to stay dry and enjoy the season, visit an RBC branch today or call 1-800-463-3863 and speak to an RBC advisor about building a tax-efficient portfolio.

* Payouts may be adjusted as market conditions require; they are not guaranteed. For example, the calculation for 5% monthly distribution (cents/unit) = (previous year December 31 NAV per unit x 5%)/12 months.

Is your portfolio a reflection of your goals or fears?

Over the past year, factors impacting the economy have improved and a number of stock market indices have recovered, with some nearing new highs. However, many investors are still unsure of what to do with their investments, resulting in their portfolios not being properly positioned to meet their long-term goals.

Here are some common pitfalls of investors with portfolios that reflect their fears as opposed to their investment goals:

- **Less risk is best:** During periods when the markets are unstable, some investors reduce the risk in their portfolio, moving from more growth-oriented investments (equity funds) to more conservative investments (money market or fixed income funds). Over the long term, this shift can reduce the growth potential of a portfolio, limiting the investor's ability to meet their long-term goals.
- **Fixed income funds are always safe:** Many investors are not aware that fixed income funds can have a negative return. Each fixed income investment (e.g. government bonds, investment grade corporate bonds, high-yield bonds) responds differently to market cycle changes. For example, government bonds decrease in value during periods of rising interest rates, but that's not necessarily the case for high-yield bonds, which can be a stabilizer during rising rates. The fixed income portion of any portfolio should play an important role in providing stability over the long term.
- **Canada is the only place to invest:** Although Canadian equity markets have provided investors with consistent returns over the past decade, it's important to note that U.S. markets have outperformed Canada in recent years. Diversification, the golden rule of investing, helps ensure that your portfolio has exposure to different growth markets, which is important in helping you reach your investment objectives.

Build a portfolio that reflects your goals

Talk to your RBC advisor today to ensure your portfolio has the right mix of assets to meet your long-term investment goals so that you're not missing out on the potential growth opportunities a balanced portfolio can provide.

The one-minute market update

ECONOMY

- The global economy continues to heal and risk appetite around the world appears to be reviving.
- The largest downside risks have arguably shrunk over the past year: the intensity of Europe's crisis has eased, China has engineered a soft landing and U.S. political dysfunction has diminished somewhat.
- Headwinds remain and there are still many hurdles to overcome before the global economy is fully stabilized, but significant progress has been made.

EQUITY MARKETS

- Equities have continued to rally in the first quarter of 2013 and we have seen large equity inflows for the first time in many quarters.
- In an era of sluggish economic growth, further stock market gains are now more likely to come from shifting investor behaviour than surging earnings.
- As the economy continues to heal, we expect valuations to gradually move higher, pulling the equity market up with it.

FIXED INCOME MARKETS

- Yields remain at unsustainably low levels, and as risk appetite increases bond yields should begin to rise.
- However, there are distinct limits to how high bond yields can rise in the near term. We must not forget that a key reason for the global recovery is the very existence of ultra-low borrowing costs. Just as rates were managed lower by central banks, we expect they will be managed higher as well.

For a summary of the Spring 2013 Investment Outlook, please visit rbcgam.com/investment-outlook.

TFSA limit increase for 2013

Regardless of what you're saving for — a vacation, an emergency fund or a new home — you can use a Tax-Free Savings Account (TFSA) to grow your savings faster by sheltering your investment earnings and withdrawals from tax.

With a TFSA, any Canadian resident age 18 or older will begin to accumulate contribution room from 2009 (when it was introduced) and can carry forward any unused contribution room indefinitely. The annual contribution limit is $5,000 for the years 2009 to 2012. And, now, you can save even more. On January 1, 2013, the annual amount that Canadians can contribute to their TFSA is $5,500 — an increase of $500.

For more information on how you can use a TFSA to help you meet a variety of goals, talk to your RBC advisor or visit **rbcroyalbank.com/tfsa**.

Online resources to help you plan and manage your taxes

*my*Tax Centre is a suite of applications within *my*FinanceTracker™ that helps you plan and manage your taxes quickly and easily. *my*Tax Centre is available to RBC Online Banking clients and allows you to:

- Estimate your tax refund or balance owing;
- Calculate your RRSP contribution tax benefits; and
- Keep up to date on the latest tax news.

In addition, RBC Royal Bank® Online Banking clients can make their tax payment online as a bill payment, just as easily as paying a phone bill. Alternatively, you can make your tax payment, including installments, through the Canada Revenue Agency's My Payment website at **cra-arc.gc.ca/mypayment**. To learn more about paying your taxes online, please visit **rbc.com/taxesonline**.