28263 (07/2014)

Investment UPDATE

Summer Edition | July 2014

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Education – The gift that keeps on giving

With summer in full swing, Canadians are taking advantage of the warmer weather to enjoy leisure time, vacations and children's outdoor activities. The back-to-school season may seem far away, but before you know it, a new school year will be upon us.

And before long, the children in your life will be reaching their post-secondary years. To help provide them with the gift that keeps on giving – a post-secondary education – it's important to establish a sound savings plan today to meet their future needs.

THE VALUE OF A DEDICATED PLAN

According to recent studies, the cost of a post-secondary education continues to rise beyond the rate of inflation. However, along with education savings, Canadians continue to juggle multiple priorities, including paying down their mortgages, managing monthly household bills and saving for retirement. So the need for a dedicated education savings plan is important, as is taking advantage of every available benefit to maximize those savings.

RESPs: A+ FOR EDUCATION SAVINGS

You can take steps today to prepare and save for the costs of a child's post-secondary education. One of the most effective ways to do this is with a Registered Education Savings Plan (RESP).

An RESP can be used to fund an apprenticeship, trade school, college and university. And the Canada Education Savings Grant (CESG) provides eligible beneficiaries under the age of 18 with a 20% grant on the first $2,500 contributed annually to an RESP, up to a maximum CESG of $7,200.

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UNLOCKING THE JOBS OF TOMORROW

According to a recent study, a post-secondary education is more important than ever:

- 75% of new jobs in the next decade will require a post-secondary education.
- Employees with a post-secondary education earn significantly higher wages and have far more job stability than those without one.
- Between 2010 and 2020, 2.1 million new jobs will be created that will require a post-secondary education.

Source: Canadian Centre for Policy Alternatives, *Degrees of Uncertainty: Navigating the Changing Terrain of University Finance,* David Macdonald and Erika Shaker with Nigel Wodrich. September 2013.

GETTING STARTED: SETTING THE TARGET

Working with an advisor to determine a realistic amount of education savings is a great place for you to start your planning. Extended family and friends may also be interested in helping you save for this important goal, especially when they understand how the CESG can help an RESP grow.

Next, it's critical to ensure you have the right investment solution to grow your savings over time. Depending on your needs, there are many RESP investment options available.

For example, **RBC Target Education Funds** manage the asset mix of your savings portfolio towards the start date of the beneficiary's post-secondary education by focusing on growth in the early years and becoming more conservative as the beneficiary's target education date approaches. You simply select the target date that's closest to when the funds are needed and the appropriate RBC Target Education Fund will manage the portfolio's asset allocation towards that goal.

Starting early matters: Building Sarah's education savings

Ron and Kelly are parents to newborn daughter Sarah. Recognizing the value and cost of a post-secondary education, they decide to start saving immediately with a tax-advantaged RESP.

Sarah's parents want to ensure they maximize the value of their daughter's education savings, so they choose the RBC Target 2030 Education Fund.

To save enough for Sarah's four years of post-secondary education – at $6,400* a year (in today's dollars) – Ron and Kelly need to contribute $111 per month to reach their goal when their daughter turns 18.

However, if Ron and Kelly wait five years to start saving, they'll have to contribute $150 per month. The cost of the delay is an increase of more than 35% to their monthly RESP contributions to reach the same goal.

Scenario assumptions: Costs of education indexed at 5%; portfolio growth rate over investment period: 6%; all monthly contributions made into an eligible RESP; monthly contributions indexed at 3% per annum; estimated net family income: $50,000; average tax rate of beneficiary: 15%; contributions are CESG eligible; CESG funds reinvested into an RESP.

*Source: Canadian Centre for Policy Alternatives, *Degrees of Uncertainty: Navigating the Changing Terrain of University Finance*, David Macdonald and Erika Shaker with Nigel Wodrich. September 2013.

Talk to your RBC advisor today about how you can give the gift of education.

The ABCs of RESPs

One of the most effective ways that Canadians can save for a child's post-secondary education is through a tax-sheltered Registered Education Savings Plan(RESP). These savings can be used to fund college, trade school, an apprenticeship and university.

Here are some important points about an RESP:

- It shelters your earnings growth, allowing contributions within the account to grow tax-free.
- Contributions can be invested into a wide range of eligible investments, including mutual funds.
- You can contribute up to the $50,000 lifetime limit per beneficiary.
- For eligible beneficiaries under age 18, the first $2,500 of your annual contribution is eligible for a 20% Canada Education Savings Grant (CESG), up to a yearly maximum of $500. The lifetime maximum is $7,200 per beneficiary. (Note: Depending on the beneficiary's province of residency and their family's income, additional grants may be available.)
- When you make a withdrawal to meet eligible post-secondary education costs, the original contributions aren't taxed. In addition, any growth in the contributions and the CESG isn't usually taxed because of the beneficiary's personal and student tax credits.

To learn more about RESPs, including eligibility and relevant rules, visit www.rbc.com/resp.

The power of a regular investment plan

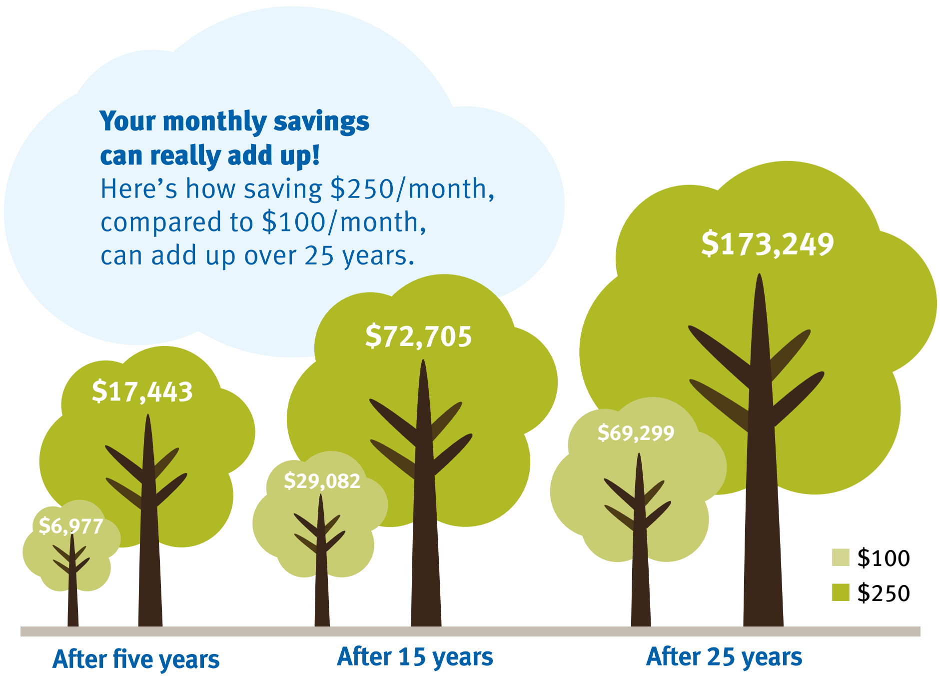
Investing is often thought of as something that occurs once a year – much like spring cleaning – and set aside until next year or when an investment matures. Whether your goal is to save for retirement, a child's education or any other life goal, there are effective ways to invest year round using a simple, hands-off approach.

A regular investment plan allows you to choose when and how often you make contributions, ensuring that investing remains a priority throughout the year and not just during the yearly RRSP contribution deadline. This enables you to apply a disciplined savings approach that helps you successfully build wealth over time. The more you invest on a regular basis, the faster your savings can grow. As the image below shows, investing $250 a month, compared to $100 a month, can make a big difference!

A SMOOTHER INVESTING EXPERIENCE

Investing regularly also provides additional benefits. It keeps you invested in all types of markets (rising, falling, flat) and helps reduce portfolio volatility over the long term. This is the case because investing a fixed dollar amount on a regular basis allows you to buy more investment units when prices are low and fewer units when prices are high, helping to provide a smoother investing experience over time.

Talk to your advisor about setting up a regular investment plan, such as a pre-authorized contribution plan, and start growing your wealth today.



Source: RBC Global Asset Management. Assumes a 6% annualized rate of return. Investment made at the end of each month.

ONE-MINUTE MARKET UPDATE

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

ECONOMY

- Led by North America and other developed markets, the global economy continues to gain traction, although the U.S. suffered an unwelcome drop in first quarter output due to unusually bad weather and a decline in inventories and exports.
- We continue to subscribe to an economic normalization thesis, with the revival of risk appetite in 2013 and the abatement of fiscal austerity in 2014 enabling materially faster growth for the rest of this year and beyond.
- While some risks have faded, such as the threat of deflation, geopolitical risks have mounted and emerging market credit excesses remain largely unaddressed.

Our sense is that the coming economic good news for the developed world is more likely than not to trump the downside risks.

FIXED INCOME

- During the past quarter, bond yields reversed course and moved lower, vexed by economic weakness as well as geopolitical concerns and pension fund rebalancing.
- In the near term, increased demand and reduced supply will influence the pace of rising yields, but our long-held view that bond yields will eventually move higher has not changed.
- We expect that rising bond yields will eat into coupon income and lead to low returns for holders of bonds.

EQUITY MARKETS

- Stock markets continue to rise and are now approaching fair value in many parts of the world. Despite the recent strong performance, valuations remain reasonable and history indicates that stock markets frequently continue to rise long after they have hit equilibrium.
- A more sustainable source of future returns will be earnings growth. As the recovery gains traction, we expect higher GDP growth to translate into expanding sales and accelerating earnings growth, potentially supporting the stock market's next move higher.
- While valuations suggest that near-term returns from equities should be lower than they have been since the crisis, stocks are still expected to outperform bonds across all time frames.

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