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Investment UPDATE

Portfolio spring cleaning — Ensure your portfolio stays on track

With the days getting longer, the mercury heading higher and spring cleaning on everybody's minds, you're probably showing early signs of what could develop into a full-blown case of spring fever. The symptoms usually include throwing open the doors and windows, pulling on the rubber gloves and plunging into some heavy-duty spring cleaning. However, for many, the season also provides the opportunity for a little financial spring cleaning — an investment portfolio review — to ensure your investments still align with your risk tolerance and investment goals.

Ensuring your portfolio stays on track may seem difficult, but by consistently adhering to the investment basics below and sticking with time-tested investment principles through all types of market conditions, you can achieve greater peace of mind, and be well on your way toward reaching your long-term goals.

1 Establish clear investment goals and realistic expectations

When market volatility increases, even experienced investors can become overly focused on short-term movements. This can lead to hasty decisions, chief among them timing the markets — investing after markets have already risen or redeeming existing investments after markets have already fallen. Too often, being short-sighted when it comes to investing in the markets can also lead to unrealistic expectations within the context of market history, whether that's expecting stocks to post double-digit returns year after year, or getting locked into the thinking that markets will continue to free-fall during periods of heightened market volatility. However, volatility decreases over time; meaning, the longer you hold an investment, the more likely you are to achieve a rate of return similar to its long-term average.

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2 Effectively diversify your portfolio to reduce risk

Financial markets do not move in concert with one another, and at various points in the market cycle, different types of investments, or "asset classes", such as cash, bonds and stocks will post varying performances. Their performance varies because asset classes can respond differently to changes in environmental factors, including inflation, the outlook for corporate earnings or changes in interest rates. By holding a combination of different asset classes in your portfolio, you can strike an appropriate balance between the growth potential of stocks and the relative stability of bonds. When it comes to investing, one of the easiest ways that you can improve your probability of success is to take advantage of the diversification opportunities available through different asset classes, geographical markets and industries.

3 Regularly rebalance and review your portfolio

Establishing the right asset mix of cash, bonds and stocks is a key component for investment success. Over time, however, the natural ebb and flow of markets will cause the value of your investment to fluctuate. If not monitored and adjusted regularly, the mix of investments in your portfolio can drift and this will likely change its risk and return characteristics. Rebalancing is an effective way to keep your portfolio aligned with your investment objectives. Not rebalancing can lead to a very different allocation and experience than you originally intended.

4 Invest regularly

A simple but effective plan for building your savings over the long term is to establish and maintain a regular investment plan. Regular investing is not only easy and convenient, but it allows you to apply a savings-first approach, providing you with the discipline needed to help meet your long-term financial goals. In addition, by investing regularly, investors can take advantage of the valuable investment strategy called "dollar-cost averaging." This approach allows an investor to purchase more of an investment when prices are low and less when prices are high, thereby potentially reducing the overall average cost of their investments. A great way to take advantage of these benefits is by setting up pre-authorized contributions to your investment accounts, by using an RSP-Matic®, TFSA-Matic® or RESP-Matic®.

Speak with an RBC® advisor to incorporate these investment basics into your portfolio and learn how investment solutions from RBC Global Asset Management® can help.

5 Maintain discipline to stay focused on the long term

In today's headline-driven environment, it can be tempting to make short-sighted decisions based on emotions, including staying out of the markets altogether. However, such behaviour can make it very difficult to achieve your long-term goals, including building wealth or ensuring that your investments can fund the lifestyle that you envision. When market turbulence increases, being able to refocus on your long-term plan is key to maintaining appropriate perspective and discipline.

Why it's best to stay invested

Missing just the 10 best days in the market, over the past 10 years, would have reduced returns significantly.

	Annual returns
Staying invested	7.0%
Missing the 10 best trading days	0.7%
Missing the 30 best trading days	-6.2%
Missing the 50 best trading days	-10.9%

Source: Based on the returns of the S&P/TSX Composite Index for 10 years ending December 31, 2011.

Talk to your advisor to review your investment portfolio and help you put these investment basics into practice to keep you focused on your long-term plan.

Getting your tax refund working for you

For the many Canadians getting a tax refund from the government this year, the big question is what to do with the money. While it may be tempting to spend it, using the money to help you achieve your financial goals is the best way to make sure it keeps working for you.

Here are some ideas to maximize your tax refund

- **Save for your retirement**. Contribute the money to a Registered Retirement Savings Plan (RRSP) and shelter your savings from taxes as your investments grow, while also reducing next year's tax bill.
- **Start or increase your emergency fund**. Using an RBC investment account, save for those unexpected expenses and give yourself peace of mind that you are prepared for a rainy day.
- **Build your child's education savings**. With free government grants and tax-sheltering benefits, contributing to a Registered Education Savings Plan (RESP) is the best way to save for your children's future.
- **Pay down debt.** Start with your highest interest rate debt and then use the freed-up cash flow to save for your goals through a regular contribution plan.
- **Save for your other goals.** A new car? Upgrades to your home? Whatever your goals, take a big step forward to realizing your dream purchase by taking advantage of a Tax-Free Savings Account (TFSA).
- **Reward yourself.** Optional, and should be kept to 10% of your refund, but you probably deserve it after doing the other five things above!

Talk to your RBC advisor today to get the advice and solutions that are right for you.

Pay your taxes online, on time

Did you know that RBC offers you simple, convenient and secure ways to pay your taxes and your regular remittances online? As an RBC Online Banking client, you can choose to pay your taxes through RBC Online Banking as a bill payment, the same way you would pay your phone bill online. It is that easy. Alternatively, you can make your payment, including instalments or nanny/childcare remittances, through the Canada Revenue Agency's My Payments site at www.cra-arc.gc.ca/esrvc-srvce/tx/mypymnt

Paying taxes online eliminates trips to the bank and reduces time and paperwork. Payments are made directly from your bank account, so they're quick and secure — and you don't have to monitor your account until the cheque clears. To learn more about paying your taxes online, please visit www.rbc.com/taxesonline

The one-minute market update

ECONOMY

- The economy has rebounded, memories of last summer's crippling U.S. political dysfunction are beginning to fade, and Europe has managed a series of deft policy manoeuvres that have dialled back the intensity of its crisis.
- The upward trend in confidence, employment, consumer credit, purchasing managers' indexes, credit spreads and stock prices is clear.
- A degree of caution remains advisable, however. The rollercoaster ride that was 2011 reminds us that even the most promising of beginnings can be derailed by adverse — and oftentimes unforeseeable — developments.

EQUITY MARKETS

- The diminishing risk of contagion spreading from Europe to the global financial system and the low risk of a near-term U.S. recession are two factors supporting the market's advance.
- P/E ratios remain low, but the long-awaited expansion in valuations appears to be emerging.
- We have maintained our overweight position in equities. Relatively sluggish growth, accompanied by a modest expansion in profits, would be sufficient to deliver extremely attractive relative returns for equity investors over the longer term.

FIXED INCOME MARKETS

- Policymakers appear committed to suppressing longer-term interest rates, at least in the near term.
- Current bond yields are only sustainable in the event that tail risks emerge or economic growth is dramatically reduced for an extended period.
- Our view remains that yields will eventually climb, perhaps sharply. In that scenario, government bonds are highly vulnerable to capital losses and, as a result, we remain underweight fixed income.

For a summary of the Spring 2012 Investment Outlook, please visit our website at rbcgam.com/investment-outlook

Put your money to work with auto-switch

Year after year, many investors hurry to make an RRSP contribution before the deadline, often "parking" it in short-term investments (savings deposit or money market investments) until they have time to really think about where and how they want to invest. Now that the 2011 RRSP contribution deadline has passed, it may be time to get your parked funds working for you.

If you have a savings deposit or money market investments, a convenient way to gradually move the money over to longer-term investments is to use auto-switch. Auto-switch allows you to take advantage of dollar cost averaging by gradually moving set amounts of your investments from RBC money market funds into as many as five different RBC Funds. You can choose your desired switch frequency, including biweekly, monthly, quarterly, semi-annually and annually.

For more information on auto-switch, visit your local RBC Royal Bank® branch or call 1-800-463-3863.

Requirements for redemptions. You can instruct your advisor to sell some or all of your units at any time. This is called a redemption. Redemptions will only be permitted in certain minimum amounts, as described in the simplified prospectus. Your advisor must send your redemption request on the same day it is received. Redemption requests are handled in the order in which they are received. Redemption requests specifying a forward date or specific price will not be processed. Your redemption will not be processed until your advisor has received all documentation. Please contact your advisor for further information.

† Prior to implementing any tax planning strategies, a qualified tax advisor should be consulted about the tax implications specific to your situation.

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