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## Investment insights

To help you stay informed, RBC Global Asset Management regularly provides insights and forecasts on the global economy and capital markets, along with in-depth analysis of how certain investment trends may impact your portfolio.

To learn more, please visit  
[rbcgam.com/investment-insights](http://rbcgam.com/investment-insights)

## The human element of investing

It may come as a surprise to some that one of the biggest detractors from portfolio returns has nothing to do with the investments themselves.

Investors today are faced with ever-changing market conditions, an onslaught of information and an increasing number of investment choices. This complexity can be overwhelming and may make it difficult for investors to stay on track with their investment plan. But making hasty investment decisions based on emotions can negatively affect long-term returns. Having decided to invest in RBC Managed Portfolios, you can rely on an investment process that has been refined over three decades to prudently make decisions with your investment objectives in mind - and take the risk of emotional responses out of the investing equation.

### The emotions of investing








A study by DALBAR, a financial services market research firm, found that the average asset-allocation investor achieved only a 1.78% annualized return over the 10-year period from 2006 to 2016.\* The study concluded that the average investor's underperformance can mostly be explained by timing decisions and emotional reactions during periods of market stress. To put things into perspective, RBC Managed Portfolio – Balanced Investment Profile returned 3.30% (annualized) over the same time frame – almost double the DALBAR study return.

\*DALBAR's average asset-allocation investor return utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Source: DALBAR's Quantitative Analysis of Investor Behaviour, 2017.

## Avoiding behavioural pitfalls

When it comes to investing, the most common behavioural pitfalls can be categorized in two ways: cognitive errors, which stem from faulty reasoning, and emotional errors, which derive from decisions influenced by feelings. In RBC Managed Portfolios, cognitive and emotional errors are offset by various elements of our investment management process.

Common investing behaviour pitfalls		Prudent investment decision-making in your RBC Managed Portfolios	
Cognitive	<b>Conservatism</b> Placing more weight on initial beliefs and not reacting to new information.	 <b>Disciplined investment process</b> A top-down and bottom-up approach to portfolio construction and management contributes to the right asset mix and security selection.	
	<b>Availability</b> Using a “general rule” approach rather than adequately assessing a situation.	 <b>Professional management</b> The collection of funds is designed to leverage the expertise and experience of the entire management team.	
Emotional		 <b>Diversification</b> The portfolio is allocated across various asset classes and is further diversified across geographic regions, industries and companies.	
	<b>Loss-aversion</b> Losses hurt more than gains, which leads to selling winners and holding losers.	 <b>Tactical asset allocation</b> As markets change, the tactical asset mix of a portfolio is revisited to ensure it is appropriately aligned with current and future conditions.	
	<b>Regret-aversion</b> Swayed by avoiding the pain of regret associated with bad decisions.	 <b>Ongoing monitoring</b> Daily oversight ensures a sound portfolio that does not drift from intended risk/return objectives.	

## Staying on track with RBC Managed Portfolios

For some investors, following a prudent, disciplined investment approach is understandably difficult to adhere to on an ongoing basis. By allowing RBC Managed Portfolios to navigate this increasingly complex universe of investment options, you are less likely to let the effects of emotional investing get in the way of your goals. Your RBC Managed Portfolio is managed by a strong team with extensive experience in global capital markets. All aspects of your Portfolio, including individual security selection or tactical asset-mix changes, are carefully monitored and actively adjusted in your best interest.

# What happened in world markets last quarter



## Fixed income

Major fixed-income markets were mixed, with the U.S. and Japan down slightly and Europe up amid subdued inflation and modest economic growth. The reaction of central banks to accelerating global economic growth is the most important factor currently affecting fixed-income markets. Investors are optimistic that central banks can tighten monetary policy without jeopardizing economic growth. In its continued effort to reduce monetary stimulus, the U.S. Federal Reserve raised interest rates by a quarter-percent in December 2017. This was the third rate hike in 2017 alone with three additional hikes expected in 2018. This quarter, the FTSE TMX Canada Universe Bond Index added 2.0%, while the Citigroup World Government Bond Index US\$ (US\$ hedged) edged up 0.7%.



## Canadian equities

Canadian stocks rose in the most recent quarter, but remain one of the worst-performing developed markets in 2017. The Canadian index was held back by the Energy sector, appreciation in the Canadian dollar and concern that the economy lacks a growth driver for the slowing housing market. Market sentiment continues to be hurt by looming uncertainty about NAFTA, as the U.S. has taken a tougher-than-anticipated stance in negotiations. The S&P/TSX Composite gained 4.5% in the quarter.



## U.S. equities

The U.S. stock market soared on strong economic fundamentals and stimulative policy announcements out of Washington. The Financials, Information Technology, Energy and Materials sectors delivered solid returns. Overall performance was strong as a result of the continuing global economic expansion, still-accommodative global central-bank interest-rate policy and low market interest rates and inflation, which drove better-than-expected financial performance for most U.S. companies. Improving possibilities of tax reform also helped to lift investor confidence. The S&P 500 rose 7.4% this quarter.



## International equities

Global equities surged during the quarter as strengthening economic growth around the world drove earnings and returns higher, especially in the Energy, Information Technology and Financials sectors. Asia-Pacific markets rallied in the period, adding to the strong year-to-date gains that have propelled the region's indexes to a leadership position in global equity performance. China was again the biggest outperformer as stabilizing economic indicators and rising corporate-earnings expectations improved investor confidence. The MSCI EAFE Index finished up 4.5% and the MSCI Emerging Markets Index added 7.7% in the quarter.

All returns are in C\$ except where indicated. Canadian, U.S., MSCI EAFE and MSCI Emerging Markets index returns are total returns.



## Portfolio Manager viewpoint

**Sarah Riopelle, CFA , Vice President & Senior Portfolio Manager, Investment Solutions**

The global economy is running at its fastest clip in seven years supported by an increasingly broad-based expansion, favourable financial conditions and a strong sense of optimism. We are mindful of potential risks relating to the aging business cycle, protectionism and precarious international relations, but we see the balance of risks and opportunities tilting towards continued economic expansion. Against this backdrop, central banks are likely to continue tightening monetary policy and we expect bond yields to drift higher, acting as a headwind to fixed-income returns. Compared to bonds, stocks offer superior total-return potential but, given fuller valuations, further gains will be paced by corporate profit growth. Earnings growth has been strong and corporate tax cuts in the U.S. could provide a further boost. We maintain our moderate overweight in stocks and underweight in fixed income.

# Bringing Canadian Olympic dreams to life

For the last 70 years, RBC has been proud to support Canadian Olympians. As their longest-standing sponsor, we're committed to helping our Canadian athletes live out their dreams by providing them with the resources and support they need to achieve success both in the community and on the world stage.

This year, 57 elite Canadian athletes were announced as 2018 RBC Olympians, including the following:



For more information on how RBC supports Canadian Olympians, visit our dedicated website at [rbc.com/community-sustainability/community/olympic-sponsors](http://rbc.com/community-sustainability/community/olympic-sponsors).

We thank you for your ongoing trust in continuing to hold RBC Managed Portfolios as part of your investment plan. If you have any questions or comments, please contact us or your advisor.

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