Investor's Edge

FIRST QUARTER 2016

Inside This Issue

FA Name

Title

Address

City, State, ZIP

Phone 1

Phone 2

email

FA website

Company details

Where Will Interest Rates Go Now That *Some* Are Finally Rising?

For at least the past six years, expectations of higher interest rates have concerned many investors. As we've seen, however, these concerns have been misplaced as slow global growth fostered an environment of easy monetary policy from major global central banks, which kept interest rates at or near historically low levels.

As 2016 begins, global central bank policy is set to diverge as the Federal Reserve (Fed) moves to begin normalizing interest rates while other central banks remain on easy street. And the thought of a "tighter" Fed has investors once again concerned over rising rates.

We agree that interest rates will rise and market volatility will increase as the Fed begins to take action. But investors should take note of the Fed's message that this tightening cycle will be different. The ultimate path to higher rates should be long, slow and gradual. While investors need to be prepared, our view is that investors

Continued on page 2

should be willing to take advantage of opportunities presented by modestly higher rates and increased volatility.

FED FOCUS ON THE DATA

Since March 2015 the Fed has used data-dependent forward guidance to provide direction to the markets as to their monetary policy plans. So what should investors be focused on?

In the U.S., the economy is forecast to continue on its steady albeit sluggish growth track. No recession is expected, but this slow pace could continue for years. Employment will remain a bright spot, with expectations that we could see an unemployment rate below 5% in the near future. Achieving the 2% inflation threshold, on the other hand, will remain a challenge due to weak commodity/energy markets and a strong dollar.

Globally, growth is showing signs of improvement in Europe and the UK but continues to slow in Asia. Plus, low levels of inflation are presenting challenges across these geographies.

Concern over global developments caused the Fed to stand down from any policy changes last September. Even though conditions have stabilized since then, we believe continued slow growth around the globe and accommodative central bank policy will limit the Fed's ability to aggressively raise rates. This will play into the Fed's guidance that "it will be different this time."

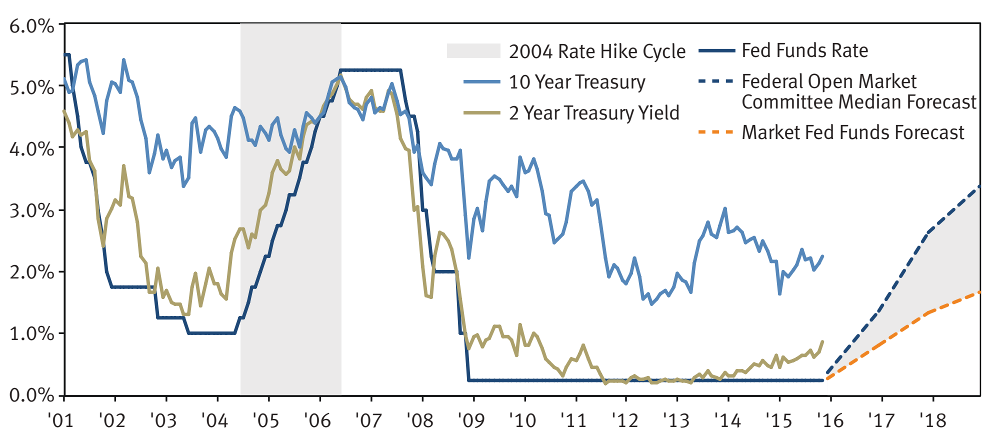
A DIFFERENT TIGHTENING CYCLE

In past tightening cycles, the Fed subjected markets to a steady diet of rate hikes at regular intervals. This time the Fed plans to take a very gradual approach to raising interest rates, assessing the impact of each policy shift on the data before making another move, which could be a rate increase or decrease.

In addition to the tightening cycle, the other important point for investors is the level at which Federal Funds (the Fed's benchmark rate) peak. In past rate hike cycles, short- and long-term rates have tended to converge at this level. In the 2004-2006 cycle, yields on 2-year and 10-year Treasuries met at approximately 5.25%.

Current projections have the peak Fed Funds rate reaching approximately 3.25% in the "long term," which likely means 2018 or beyond. Two-year T-notes currently yield approximately 0.90% and 10-year T-notes currently yield approximately 2.25%; they could converge near 3.25% in the next several years.

Interest rates forecast to rise slowly, and to lower peak than past cycles



Source: RBC Wealth Management, Bloomberg, Federal Reserve
Market expectations based on data through November 19, 2015

DON'T PANIC; PLAN

Uncertainty surrounding the Fed has subjected investors to heightened levels of volatility in recent months. We believe increased volatility and the prospect of tighter Fed policy will present challenges for investors, but it is not the time to panic. Moreover, with our outlook for interest rates to remain well contained, we think potential volatility may present opportunities.

The start to a new year is usually the time for New Year's resolutions as a way to change or refocus our attention on something important to us. So here are a few suggested resolutions you might consider to help better position your portfolio to take advantage of possible opportunities:

1) Review your portfolio – Diversification across asset classes and credit quality is essential to building a strong, balanced portfolio. Ask yourself: "Am I properly diversified?"

2) Know what you own – Reaching for yield in lower-rated securities or longer-dated issues has been a common theme, but in many cases it has added unwanted or hidden risk to portfolios. Ask yourself: "Are there hidden risks in my portfolio?"

3) Check your portfolio positioning – Simply staying "short" in anticipation of Fed rate hikes isn't a plan. We think portfolios should be positioned in intermediate maturities with a focus on quality. Ask yourself: "Do I have a plan?"

Here's to safe investing in 2016!

If you have questions about how to prepare for rising interest rates, please call your financial advisor.

What to Know Before Investing in a Timeshare

If you take vacations regularly, purchasing a timeshare may have crossed your mind. And the idea of being able to escape for a week in the sun can have a strong appeal this time of year – especially if you live where winters can be long. But is investing in a timeshare a smart move for your specific financial needs and circumstances?

As you may know, a timeshare usually entitles its owner to a week (or more) at a specific resort once a year. While prices may vary based on size, location, season and amenities, the American Resort Development Association – a trade group for timeshare companies – reports the national average cost of a new one-week timeshare is more than $20,000, with annual maintenance fees averaging nearly $700.

The following "buyer's guide" may help you understand some of the key advantages and drawbacks. It may also help you determine if a timeshare is practical for you.

First, rank how strongly you feel about each advantage and drawback by using the following table. Enter a "1" for low and a "5" for high (or a "0" if it is not important). Then total your scores.

The greater the difference in the two sums, the greater degree to which owning a timeshare may be a net advantage or drawback.

Also try this with your spouse or significant other, and compare scores. What you learn may help keep your relationship harmonious.

Affordable access to expensive properties – With a vacation home, you make monthly mortgage payments, even when you are not there. But with a timeshare, you pay only for what you use. ***Possible advantage.***

Costs – You pay the annual maintenance fee whether you use the property or not, and these fees can increase every year. Plus, you could be liable for special assessments. ***Possible drawback.***

Predictability – If you like going to the same area each year, you will have a guaranteed place to stay. ***Possible advantage.***

Lack of liquidity – Given the sheer number of units on the market, timeshares are hard to sell and you would likely have to offer it at a steep discount. ***Possible drawback.***

Potential rental income – You might be able to rent your timeshare if you cannot use it, although not all contracts permit rentals. ***Possible advantage.***

Strict tax rules – Mortgage interest on a timeshare is tax deductible only if all the following are true: you are not renting it, you treat it as a second home, you are legally liable for the debt and the debt is secured by a main home or second home that is not rented out. ***Possible drawback.***

Advantages		Drawbacks	
Affordability		Costs	
Predictability		Low Liquidity	
Potential Income		Strict Tax Rules	
Flexibility		Low Transparency	
Total		Total	

Flexibility – You may be able to travel to new places by trading with other timeshare owners. ***Possible advantage.***

Transparency issues – The timeshare industry has a "let the buyer beware" reputation. Be careful about understanding the contract terms, and be prepared for high-pressure tactics often employed by the salespeople. ***Possible drawback.***

After weighing the advantages and drawbacks, should you decide to buy into a timeshare, do so for "lifestyle" reasons rather than as an investment. And before you sell any securities to finance it, ask if a securities-based lending strategy may be appropriate. Because taking a loan against eligible securities in your portfolio may allow these assets to continue working toward your long-term investment goals.

To explore innovative ways to fund your timeshare and other real estate purchases, please call you financial advisor.

Prepare Your Portfolio for Retirement

During your working years, one of your primary investment objectives is accumulation. Simply put, you want your money to grow as much as possible.

But when you retire, you need to think in a fundamentally different way. Your focus shifts to producing sufficient income to maintain your desired lifestyle while minimizing the chances of outliving your retirement savings – which is a real fear for many people.

Research published in 2015 by the American Institute of Certified Public Accounts found that of clients surveyed – many of whom are high net worth individuals – 79% ranked running out of money among their top three retirement concerns. Indeed, a majority (57%) ranked it their number one concern.

Of perhaps equal importance, the second most prevalent concern is paying for health care costs, followed by deciding how much to withdraw from assets. Longevity, Social Security decisions, and diminished capacity/dementia issues rounded out the top six concerns. And nearly all are relevant to how you think about your retirement portfolio.

Ensuring that you may have sufficient, long-lasting income throughout retirement requires balancing very different needs. On one hand, your immediate income needs translate into a shorter time horizon, with less ability to recover from market volatility. On the other hand, you still need sufficient growth potential to provide for greater income needs in the future and to keep ahead of inflation.

To meet your requirements for income and growth, you will need to carefully construct and maintain a portfolio that offers both – but in a somewhat different manner than during your "accumulation" years.

Regarding income-producing investments, for example, you may have to go beyond owning a few corporate bonds and certificates of deposit and consider a more comprehensive mix of investment-grade bonds, high-yield and emerging market debt, real estate investment trusts (REITs), master limited partnerships and multi-sector bonds.

In terms of growth, you will want to follow strategies similar to those you pursued during your accumulation years; however, you may want to consider allocating a larger percentage of your equity holdings to dividend-paying, large-capitalization stocks. Choosing high-quality growth investments and diversifying your holdings may also help protect you during "down" markets and minimize the effects of volatility on your portfolio.

Ultimately, balancing your needs for income and growth in your retirement portfolio will depend on your individual needs, goals, risk tolerance, tax situation and legacy wishes. Understanding current market conditions, especially interest rates, will play a role as well. Depending on the income you need your portfolio to generate, providing more income from interest and dividends may mean you will have to rely less on selling your investments to create that income.

Ensuring that you may have sufficient, long-lasting income throughout retirement requires balancing very different needs.

It will take time and diligence, but it will be worth the effort. After all, you could spend two, or even three, decades in retirement. And you will want to be confident you can enjoy these years to the fullest.

To learn more about creating an appropriate investment mix during retirement, please call your financial advisor.

Election Year Investment Considerations

With less than a year until the presidential election, the campaign season is an important theme politically, socially and economically. As a citizen, you may have an interest in the process and outcome. But as an investor, how might you be affected?

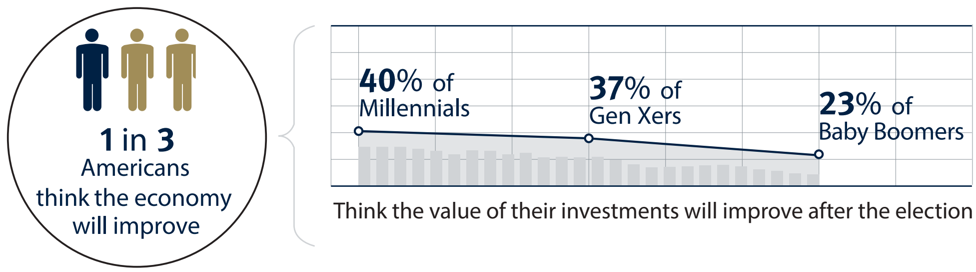
A look back at the past 11 presidential election years shows the market (as measured by the Dow Jones Industrial Average) has been up nine times and down twice. Based on that simple premise, you might easily assume your portfolio may do well on cruise control in 2016.

Perhaps this is why so many people are feeling favorable about this election year. According to a recent poll conducted last October, 32% of Americans think the economy will improve after the 2016 elections and only 17% think the economy could worsen.* Younger Americans reported higher degrees of optimism regarding their investments.

Regardless of your personal point of view about our economic and investment prospects, instead of counting on historical trends or listening to campaign rhetoric that may fade soon after the election, you may feel more confident basing your investment decisions on three portfolio management fundamentals.

Diversification, asset allocation and tax management have each stood the test of time as being practical investment themes, regardless of what is happening in the political cycle.

Impact of U.S. presidential election on economy and investments



*Source: October 2015 RBC Wealth Management survey of Americans by Ipsos

Diversification – By spreading your dollars among various equities, fixed income securities, cash accounts, alternative investments and other vehicles, you can help reduce the effects of market volatility on your portfolio. You also give yourself more opportunities for success.

Asset allocation – Periodically ask yourself how you really feel about risk. When markets are up, when they are down, when they are flat and when they are volatile. Then allocate your investment portfolio appropriately for your long-term goals, while maintaining a suitable cash position for your short-term financial goals and liquidity needs.

Tax management – Since investment-related taxes can eat into your returns, it pays to be smart about taxes. For example, if you can hold an investment more than one year before selling, you will be taxed for long-term capital gains, which is 15% for most taxpayers or 20% if you are in the top tax bracket. If you hold the security one year or less, your gain is classified as short-term and you will be taxed at your personal income tax rate. Another tax-smart move is to contribute to tax-advantaged retirement accounts, such as your 401(k) and IRA.

Presidents and politicians come and go, as does their impact on the financial markets. And noted economist and professional investor Benjamin Graham shared valuable insight when he observed, "In the short run, the market is a voting machine but in the long run it is a weighing machine."

So when you "vote" with your portfolio by making investment decisions, choose wisely and stick to these three fundamentals. Because no one has greater control over your success than you.

To discuss your short- and long-term investment goals, please call your financial advisor.