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InvestmentUPDATE

Summer 2018 Edition

In this issue

Two great ways to save that work even better together

Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs) are often presented as an either/or choice, leading investors to favour one over the other. However, both account types offer distinct benefits that can help you manage taxes and boost after-tax returns. Further, by using both accounts, you gain an additional layer of flexibility to help maximize the benefits.

Start building both your RRSP and TFSA

Your RRSP offers some well-known tax advantages, including the ability to claim your RRSP contributions as deductions on your income tax returns. Your RRSP investments also grow on a tax-deferred basis.

While TFSA contributions do not generate a tax deduction, your TFSA does allow you to earn tax-free interest, dividends and capital gains, and even make withdrawals – at any time, for any reason – without paying tax.

Setting up regular contributions to both a TFSA and an RRSP can help you automate your savings and allow you to take advantage of the unique benefits of each account.

Further, unexpected windfalls, such as tax refunds or salary bonuses, are also great ways to boost your savings in these accounts without needing to find extra funds from your regular paycheque.

Maximum annual contribution limits for registered savings accounts

18% of your salary to a maximum of: **$26,230** for 2018

$5,500 annual limit for 2018

(Total maximum contribution amount of $57,500 for 2009-2018)

The flexibility of two accounts

When your tax rate is relatively high and you require additional income, drawing savings from your TFSA can make a lot of sense. That's because you can withdraw funds without paying taxes at your current high rate and the amount you withdraw is added back to your available contribution room the following year.

On the other hand, because RRSP withdrawals are taxable, to maximize the benefits, withdrawals are ideally made when your income is relatively low and/or your tax rate is lower than when you made your contributions.

By building assets in both your TFSA and RRSP, you have the flexibility to draw income from the account that best suits your current tax or income scenario.

Benefits before and during retirement

For most people, their income in retirement will be lower than throughout their career, providing a natural time to take advantage of lower tax rates to withdraw from their RRSP and eventually their Registered Retirement Income Fund (RRIF).

However, your income and income needs may not always be consistent over your lifetime. While you are working and saving for retirement, you may take time off to care for family, for education, sabbaticals or other personal reasons. During retirement, income can vary significantly if, for example, you retire prior to your pension kicking in or take on a new 'post-retirement' career. Your retirement income needs may also vary due to lifestyle or health reasons.

Having assets in both your RRSP and TFSA through these periods not only helps provide the income you need, it can also help you better manage your finances over your lifetime.

The path of your money in registered accounts

	Contributions	While in the account	Withdrawals	In retirement
RRSP	Tax deductible against your income	Tax-deferred growth	Taxable as income	On December 31 of the year you turn 71, your RRSP must be converted to an income vehicle, such as a RRIF
TFSA	No initial tax savings	Tax-free growth	Tax free	No age limit for contributions and no required withdrawals

Everyone's income and financial situation is different. Contact your RBC advisor today to review your personal situation and create a plan to suit your needs.

Your summer savings tune-up

Come summertime, many Canadians may find themselves with a little extra cash in their pocket – perhaps you received a tax refund or your paycheques are a little higher as Canada Pension Plan (CPP) and Employment Insurance (EI) deductions reach their maximums. This makes the warmer months a great time for a summer savings tune-up.

Here's how to get started:

- Review your investment goals, time horizons and any life circumstances that may impact your saving strategies.
- Use the extra cash flow to top up your TFSA, RRSP or non-registered investment account.
- Start a regular contribution plan if you haven't set one up yet.
- If you already have a regular contribution plan, use the extra cash flow to boost your regular payments.

Why invest regularly?

Contributing regularly enables you to apply a disciplined savings approach to help successfully build wealth over time. Investing regularly also allows you to ease into any type of market (rising, falling or flat) and reduce long-term portfolio volatility.

Your monthly savings can really add up

By contributing $100 per month and assuming a 6% annualized rate of return, your savings could reach close to $70,000 over 25 years.

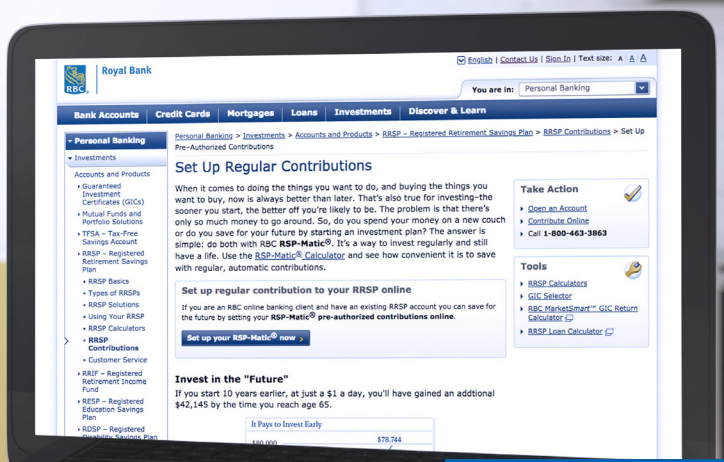
Source: RBC Global Asset Management. For illustrative purposes only. Actual returns may be higher or lower than those shown and do not reflect future value or future performance of any fund.

Investing regularly with RBC

As an RBC investment client, you can easily set up regular contributions online.

Already have a regular contribution plan in place? Use our online platform to increase your contribution amounts and make the most of your excess summer cash flow.

Sign into your online banking account or talk to an RBC advisor to learn more about regular investing.



ONE-MINUTE MARKET UPDATE

For the full Summer 2018 Global Investment Outlook, please visit rbcgam.com/gio.

ECONOMY

- Economic growth slowed in the first half of 2018, but remains quite good by post-crisis standards and is benefitting from U.S. fiscal stimulus, optimism among businesses and consumers, as well as the diminishing drag from the financial crisis.
- Although inflation is firming, our view is that it is transitioning to normal levels after an extended period of being too low, and that structural factors related to demographics and technological change will ultimately limit how fast consumer prices can rise.
- The key risks to our positive outlook are the threat of protectionism, the aging business cycle and tightening financial conditions.
- We expect the global economy to navigate these challenges and expand by 4.0% in both 2018 and 2019, which would be the fastest rate since 2010.

FIXED INCOME

- Moderate growth and firming inflation will encourage central banks to continue dialing back accommodative monetary policies.
- Our model for the U.S. 10-year bond suggests an upward bias to yields over the long term, but also that adjustments can be gradual and distributed over an extended period.
- A sustained rise in bond yields, even if gradual, would act as a headwind for sovereign-bond investments and lead to low, or even negative, total returns.
- We remain underweight fixed income, but less so than at previous points in the cycle, since bonds should serve as ballast in a balanced portfolio if the economy downshifts.

EQUITY MARKETS

- Global equities have fluctuated significantly in the past quarter as rapid corporate profit growth was offset by contracting price-to-earnings ratios.
- Expanding valuations have been a significant source of gains for stocks during this long bull market, but sustained earnings growth will be critical to drive stocks higher from here.
- Earnings have indeed been growing rapidly, helped in part by U.S. tax cuts, and analysts expect the positive trend to persist.
- We have been moderating our risk-taking given the maturation of the business cycle but, in our view, the potential upside in corporate profits justifies a mild overweight in stocks.

Prime-Linked Cashable GIC

The RBC Prime-Linked Cashable GIC may be ideal if you want to take advantage of rising interest rates while your funds remain fully accessible[1]. It guarantees the investment principal and offers a variable interest rate that is linked to changes in RBC Prime Rate. Your GIC rate increases when RBC Prime Rate increases[2].

Ready to invest?

- Minimum investment of $5,000[3]
- For the latest rates available, visit rbcroyalbank.com/investments/gic-rates.html

[1] No interest is paid if cashed within the first 29 days and a $25 administration fee will apply.
[2] If Royal Bank Prime decreases, this interest rate will also decrease.
[3] Must maintain a minimum of $5,000 at all times. Minimum withdrawal amount is $1,000.

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