

**KARIMVISRAM**  
PRIVATE WEALTH MANAGEMENT GROUP  
OF RBC DOMINION SECURITIES



**Wealth Management**  
Dominion Securities

# Private WealthManager

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## A word from Karim

### Go Jays Go

As I write this, our beloved Jays are in the hunt again (second year in a row) though they are behind three games to one to Cleveland. But, as they showed against Texas last year, they can come back and take us all the way this year. Like our beloved Raptors, they are now against Cleveland. We have to get revenge for the Raptors. We cannot let Cleveland better Toronto in basketball and now in baseball. Thank goodness Cleveland no longer has an NHL hockey team (remember the Cleveland Barons?).

I hope this note finds you well and everyone has recovered from all the Thanksgiving turkey. I can't believe we are marking the end of summer and the beginning of fall and getting ready for another winter. I should not complain as it was a great summer. It was nice, warm (maybe too warm) and long. It is October and it is still sunny and 20 degrees outside. I shouldn't complain at all with the weather we have enjoyed.

But still this summer has gone by too fast. On the fun side, I took Kiyaan to watch a few soccer games in the U.S. and he got to see his hero (Lionel Messi) play. That made his year and we got some great father and son time making fools of ourselves at the soccer games. Now, for those who have never been to a soccer game, it is the opposite of going to a tennis match. When I take Aqil to a tennis match, like we do each year at the Rogers' Cup, we have to be very quiet during the match.



We actually whisper during points and clap gently after each point (or else the umpire will have us escorted out of the stadium).

Now soccer is different, very different. You get escorted out if you are quiet and whispering during the match. Yelling and shouting and doing high fives are a must, otherwise you are not a soccer fan. Even in a match that's zero-zero (or nil-nil as they say in soccer), you have to do that. In tennis, fans arrive maybe 30 minutes before the match and leave nicely 30 minutes after the match. This does not happen in soccer. In soccer, the tailgate parties start about six hours before the game and last three hours after the game. It's a 12-hour experience.

Needless to say, they are two different experiences and both are wonderful sports, especially since I get one-on-one time with Aqil (in tennis) and Kiyaan (in soccer). What else can a father ask for? Maybe that one day his kids help around the house?

# A vote of confidence

By Kelly Bogdanov, Janet Engels and Craig Bishop  
RBC Portfolio Advisory Group

## A supertanker, not a speedboat

Bold campaign promises and stump speeches dominate the U.S. presidential election season every four years. Republican nominee Donald Trump and Democratic standard-bearer Hillary Clinton are no exception to this American tradition.

But in reality, change in Washington happens slowly. Newly elected presidents want to navigate the political waters like a speedboat. They quickly find out the federal government pushes along like a slower-moving supertanker.

While a new president can certainly begin to steer the country on a different course, changes in policy require partnership with Congress, often involve compromise, and usually materialize only gradually. The checks and balances built into the federal government's framework, specifically the separation of powers into three co-equal branches (executive, legislative, and judicial), restrain the power of any single individual, including the president.

We view the powers-sharing framework and the laborious American lawmaking process as positive for financial markets and investment portfolios. From our perspective, the system acts as a safety valve for investors during a new president's term by stalling or diminishing policy changes. It significantly reduces the likelihood a particular president or Congress can take the country in a drastically different direction in one fell swoop.

This especially comes into play when a president does not have the benefit of a filibuster-proof majority in the Senate (60 of 100 members). There is little chance of that occurring this election, according to polls, regardless of which party wins the Senate.

## Don't let ideology "trump" strategy

Over the years we've noticed some investors across the political spectrum are tempted to adjust portfolios around election time based on their ideological leanings. This phenomenon can be more pronounced when investors fear the potential consequences of a particular candidate's proposals.

But ideological-based investing can backfire.

For example, had detractors of Ronald Reagan reduced equity exposure or exited the market altogether due to their concerns about his supply-side economic policies and hawkish defense agenda, they would have missed out on a strong economic growth spurt and a meaningful 112% rally in the S&P 500 from the time he was elected until his successor was voted into office eight years later.

At the same time, had critics of Bill Clinton's health care and tax reform proposals reduced equity holdings when he was first elected, they would have watched the longest economic expansion and strongest market rally in the U.S. history from the sidelines. All the while, Clinton critics' biggest ideological concern – health care reform – was not implemented during his tenure due to congressional opposition.



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Furthermore, when Barack Obama was elected in 2008 during the height of the financial crisis, some investors feared the Great Recession would soon morph into the second Great Depression. Instead, what materialized was a seven-year (and counting) economic expansion – albeit slow – combined with the second-longest and third strongest equity bull market rally (so far) since the 1960s.

### The business cycle is job one

Determining the influence that specific government policies have on the stock market is more art than science. Financial market performance actually has greater linkages to the future direction of the economy, corporate earnings, and monetary policy than it does to actions that emanate from the White House and Capitol Hill.

Developments in slow-moving Washington D.C. usually stir up a lot of noise, but don't make or break America's behemoth \$18 trillion in annual GDP. The business cycle – the ebb and flow of economic activity from recovery, to steady growth, to recession, and back – seems to impact the stock

and bond markets far more than the political cycle. While the decisions of the President and Congress can certainly amplify or weaken economic trends, Washington's leaders are dependent on business cycle fluctuations, just like investors are.

### Mister or Madam President, mind the recession indicators

We believe recessions matter more to investment returns than the occupant of the Oval Office. Recessions are usually responsible for ending equity bull markets, and hints of recoveries typically prompt new bull market cycles to begin.

At this stage, seven years into the bull market, recession risks remain quite low, according to our models and regional Fed measures. A number of key economic indicators are either expanding or are neutral, including the yield curve, manufacturing, inflation, factory activity, housing starts, and employment. None is in contraction territory. Typically, when recessions materialize some or all of these indicators are contracting (see table).

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### RBC's recessionary scorecard

Start of recession	Yield curve	ISM mfg.	Inflation trends	Capacity utilization	Housing starts	Labor market
Dec-69	x	x	x	x	x	x
Nov-73	x	x	x	x	x	x
Jan-80	x	x	x	x	x	x
Jul-81	x	x	✓	✓	x	✓
Jul-90	x	x	x	x	x	x
Mar-01	x	x	x	x	—	x
Dec-07	x	x	x	x	x	—
Present	✓	✓	—	—	✓	✓

Key: x Recessionary territory  
 ✓ Expansionary territory  
 — Neutral

Source - RBC Capital Markets, Haver Analytics, U.S. Census Bureau, ISM, BLS, Federal Reserve, NBER, S&P

## Conclusion

We expect U.S. GDP growth to register around 2% in 2017 – still subpar by historical standards, but enough to create opportunities for well-managed companies. The roughly 70% of the economy that is tied to consumer spending seems stable and positioned to grow at a faster clip with the help of a stronger job market. Fiscal stimulus in the form of infrastructure spending, which both Clinton and Trump are proposing, could boost growth moderately if passed by Congress.

The media, both mainstream and alternative varieties on each end of the ideological spectrum, is quite adept at inflating the importance of U.S. presidential elections. While the person occupying the Oval Office certainly has great influence and can help or hinder the country's economic progress, many other factors also determine U.S. asset class returns. Despite the unique contours of the current U.S. presidential election race and controversies surrounding Hillary Clinton and Donald Trump, we recommend investors remain unemotional and not let the election govern investment decisions. We advise staying the course heading into the November 8 vote and that is what we are doing with your portfolio.

# Housekeeping

## 2016 Christmas Brunch

We are starting to plan for the best time of the year (notwithstanding the cold weather): Christmas. We have already booked the venue (The Boulevard Club) for Saturday, December 3rd. The details will be coming out very soon. Please mark it down and I hope you will bring the whole family out to celebrate this special time with us. We will be having a toy and food drive as we did last year. Your participation will be most appreciated.

## Talent show

One of the entertainment options we are looking at for the 2017 Christmas brunch is a talent show. I would love to get your feedback on this idea. Would you enjoy seeing a talent show and, if so, do you know anyone in your family or friend network with a particular talent that they would like to perform in front of an audience? Donations would be made to a charity of their choice. Please let me know what you think.

## Diaries

We are in the process of ordering our 2017 pocket and desk diaries (see picture included). Please let us know if you would like us to send you one.



## Capital gain and loss trading

It is that time of the year again. We have started doing a complete review of your portfolios to see how we can reduce the net capital gains we have realized this year. As such, you may see some trading in your account in the next month or two. Please feel free to call me if you have any questions regarding this.



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