# Investor's Edge

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An exclusive newsletter for RBC Wealth Management clients


## Strategic debt practices create a new paradigm for building and preserving wealth

By Thomas J. Anderson, Founder and CEO of Supernova Companies, LLC
Courtesy of RBC Wealth Management

To help expand and enhance the opportunities available to valued clients like you, RBC Wealth Management regularly partners with carefully selected financial services providers, such as Supernova.

Let's start by asking how you feel about borrowing money. Does the idea of having debt make you uncomfortable? Given a choice and the resources to do so, would you eliminate all your debt today?

If you are like most Americans, you may have a mostly negative point of view about debt. However, for financially successful individuals or families, there may actually be intelligent, practical ways that strategic debt can help build and preserve wealth.

I know this may sound unbelievable. So let me clarify an important point: strategic debt is not intended to be used to buy things you cannot afford. Instead, it may offer potential advantages to enable purchases you can afford – in a manner that makes strategic sense regarding your overall circumstances and wealth management goals.

Before introducing some key ideas regarding strategic debt practices, we should quickly address three concepts that may help transform your attitudes about borrowing money. With a renewed outlook, you may be ready to make informed, rational choices regarding strategic use of debt.

### Adopt a holistic approach to your personal balance sheet

As an investor, building and preserving wealth may be top priorities. Yet focusing on just one half of your personal balance sheet – the assets half – means that you may not be thinking about how the liabilities side may contribute to your overall net worth and, therefore, your overall resources. Adopting a holistic approach to managing wealth by concentrating on making the most effective use of both sides of your balance sheet may help improve your outcomes.

You need to ask yourself, "Am I managing toward – and taking full advantage of – my complete financial picture, including liabilities?"

### Think like a company

Virtually all companies embrace debt. In fact, there are only two remaining AAA-rated companies in the United States. While many companies could potentially be AAA rated, they proactively choose to take on debt, which results in a lower credit rating (among other factors). Do they do this

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because they cannot afford to pay off their debt? No. They use credit because they realize that correctly structured debt actually makes them stronger, longer lasting and more profitable.

Another fact to consider is that all corporate debt is issued as an interest-only loan – not some of it, not 99 percent of it, but all of it. When you buy a bond, you receive regular interest payments with return of principal at the end of the term. You need to ask yourself, "How do the companies in my stock-and-bond portfolio deploy credit strategically?"

## Challenge common wisdom

Debt has a terrible reputation, which is why most of us work so hard to become debt free. But please understand that your rate of return on paying off debt is exactly equal to the after-tax cost of that debt.

For example, if you have a $100,000 loan at 4.5 percent interest and you receive a sudden windfall and have the means to pay it all off, you will save $4,500 a year in interest, or a 4.5 percent rate of return. You need to ask yourself, "Compared with paying off loan principal, are there investments I could allocate my money toward that may earn a greater rate of return than my interest payment?"

## Do the one thing all companies do

While nearly all publicly traded companies in America choose to use debt strategically, the fact is that it may not be right for every individual. However, all companies do proactively choose to have access to liquidity in the event of an emergency.

When companies establish lines of credit, they again take a holistic approach to their balance sheet, factoring in all circumstances, and look for the lowest rates and most flexible terms possible. Individuals can do the same thing, typically through an asset-based loan facility. This may include setting up a line of credit or opening a margin account where you pledge eligible securities as loan collateral. The amount of credit available may be up to a certain percentage of the value of the assets pledged. Generally speaking, the greater the value of assets pledged, the more favorable the interest rate charged.

## Explore a practical solution for many goals

An asset-based loan facility is one loan that can serve many purposes. In addition to helping you "self-insure" against risk in general (without having to underwrite an insurance policy or pay insurance premiums), it has the potential to help you:

- seize timely investment opportunities
- increase return potential and/or make money on the money you borrow
- finance expensive items/assets (such as real estate) for competitive rates
- gain negotiating power on major purchases by offering "cash in hand"
- consolidate higher-interest debt at a more favorable rate
- diversify concentrated stock positions
- invest in businesses or securities to create income
- manage tax liabilities or create tax-advantaged income

It may sound counterintuitive, but you can even use strategic debt to decrease your overall risk exposure. And you can accomplish all of these goals without selling securities in your portfolio. This may allow you to continue working toward your long-term investment strategy.

## A few words of caution

Like all investing decisions, there are risks associated with strategic debt practices. For example, the loan provider will require that the value of the assets stay above a certain level. Should the asset value fall beneath the stated level, the lender may require that additional assets or money be deposited. Otherwise, the lender may have the authority to sell pledged assets at its discretion to satisfy some or all of the loan amount. For these and other reasons, this form of borrowing may not be suitable for everyone.

*Now may be the time to consider how having the right amount of the proper kind of debt might help expand your opportunities and enhance your financial well-being. To learn more about the strategic use of debt – and for help determining if it is appropriate for your goals and circumstances – please contact your RBC Wealth Management financial advisor.*

Thomas J. Anderson is the New York Times and USA Today best-selling author of "The Value of Debt" and "The Value of Debt in Retirement."

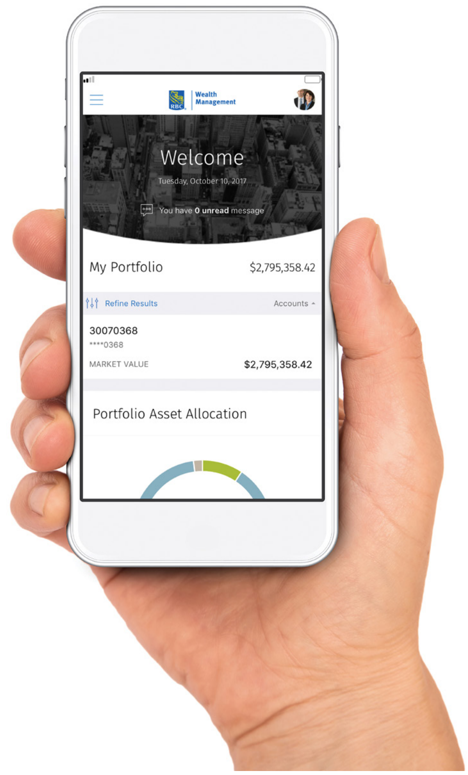
Asset-based lending may not be suitable for all investors. You must maintain sufficient collateral to support outstanding loans. Before using such products, you should read the Margin Disclosure Statement or line of credit literature and regulatory disclosures to ensure you understand the risks involved.

Lending services are offered to RBC Wealth Management clients by different entities. RBC Wealth Management and/or your financial advisor may receive compensation in conjunction with offering or referring these services.

RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in connection with your independent tax or legal advisor.

# Experience the freedom of mobile wealth management

Like many busy American clients today, you may use your smartphone or tablet for any number of activities. Staying in touch with friends and family. Getting directions. Streaming movies and television. Checking the weather. Now you can use your iPhone® to have instant access to your RBC Wealth Management accounts.




## Try the new mobile app

While taking care of your other daily activities while you are on the go, why not also check out your portfolio of accounts? It will be easier than ever, because we recently introduced an iPhone app just for you. An Android version of the app will be available later in 2018.

The RBC Wealth Management Online app is free in the App Store on any iPhone running iOS 10 or 11. To access your account information, use your same ID and password that you use to log in to the desktop version of RBC Wealth Management Online.

You can use the iPhone app to view your accounts and review your investment mix, account level performance data and other key information. The app also gives you the ability to send and receive secure messages to and from your RBC Wealth Management financial advisor.

A new value-added feature of the app is the ability to make mobile check deposits. Simply take photos of the front and back of your check to deposit it into your eligible RBC Wealth Management account. If you have checking account services associated with your Investment Access® Account and/or standard account, you can order new checks featuring mobile check deposit optimization, including enhanced security functionality and enhanced tracking capabilities.

You can use your new iPhone app anywhere you happen to be – when you are on vacation, on your lunch break at work or even in transit. All you need is an internet connection.

We will continue to enhance and update the mobile app to bring you the right features and functions. We want to give you the flexibility and convenience to access your financial information wherever you are, whenever you want.

## Enjoy the convenience of ApplePay

In addition to the RBC Wealth Management Online app, clients with Apple devices have the convenient option of ApplePay®. Instead of having to carry your debit card with you or go through the hassle of constantly entering payment and contact information for online purchases, you can "pay and go" with just one touch of your iPhone.

If you have an RBC Visa® Platinum Debit Card associated with one of your RBC Wealth Management accounts, you can link your debit card to ApplePay®, using your iPhone, iPad or Apple Watch. And, of course, neither RBC nor Apple will charge you for using ApplePay.

Consider exploring the mobile wealth management tools we make available to you; they can save you time and effort and maybe make your life a little easier too.

For more information on any of our mobile wealth management services, please contact us.

# Responsible investing principles support goals-based planning

April 22 is traditionally set aside to honor Earth Day. First formally recognized 48 years ago, it has evolved into an international celebration, with nearly 200 countries holding events to support clean air, clean water and other measures to protect our planet.

Today, many individuals are upholding the ideals behind Earth Day – every day – by making financial choices to reflect their environmental values. And by using responsible investing principles to select the securities you own, you can likewise incorporate your values into your goals-based approach to wealth management.

Used in a manner similar to an alternative investment, you can allocate a portion of your portfolio to responsible investments for diversification purposes. Or you may allocate as much as you wish to responsible investments without sacrificing your ability to work toward your financial goals. The choice is yours.

To get started, talk with your financial advisor. You may want to determine what issues you care about. For example, if you are concerned about the environment, you might say global warming, pollution and sustainability are all issues that matter to you.

As a next step, you may want to prioritize which issue is most urgent for you. You might then pick one issue in particular, such as global warming, and focus your responsible investment efforts upon addressing it specifically.

Alternatively, you may want to look for opportunities to combine your interests and pick a sector of the economy with consequences for all three hypothetical issues. In this scenario, you might choose to direct your responsible investing efforts toward the fossil fuel industry.

After prioritizing the issues, you may then want to determine which responsible investing strategy to adopt. Generally there are three widely accepted choices:

**Socially responsible investing** – This strategy uses a set of parameters you define to remove or avoid investments you may object to based on your values. Using the fossil fuel industry example, it is for when you want to say, "None of this for me," simply by not participating in the financial success of oil producers.

**Environmental, social and governance** – This strategy allows you to select money managers who seek investments that perform well financially in addition to performing well on these desirable metrics. Using the fossil fuel industry example, it is for when you want to say, "I want to be a positive influence on this," perhaps by choosing managers who include environmental stewardship when evaluating securities.

**Impact investing** – This strategy focuses on putting money to work to solve a specific problem as a primary goal, with financial return being a secondary, though equally necessary, goal. Using the fossil fuel industry example, it is for when you want to say, "I want to change this," perhaps by helping capitalize oil producers making strong progress toward renewable energy sources.

To be clear, responsible investing is not philanthropy. In fact, Oxford researchers analyzed nearly 200 published academic research papers in 2014 and reported that 80 percent of studies show stock price performance to be positively influenced by good sustainability practices.*

So, adopting responsible investing best practices can be empowering, both financially and in terms of your values. After all, you are connecting three of the things that may be most important to you: your deeply held personal beliefs, your financial goals, and the wealth you have worked hard and invested carefully to earn. Consider exploring this opportunity in 2018.

To learn more about responsible investing and goals-based wealth management, please contact us.

*Clark, Gordon, Andreas Feiner, and Michael Viehs. 2014. "How Sustainability Can Drive Financial Outperformance."

# Aging and finances: What everyone needs to know

No matter how you envision spending your retirement years, a common goal shared by many may be simply enjoying the ability to age gracefully, maintaining a sense of independence, dignity and well-being throughout a long and happy life. While paying attention to declining physical abilities is essential to achieving this goal, it is equally important to watch for declining mental abilities.

The reason is that a serious decline in memory and/or mental acuity, such as the onset of dementia or Alzheimer's disease, can affect financial decision-making ability. This may leave individuals vulnerable to accidentally mismanaging their money or falling victim to fraud schemes that prey on the elderly or mentally infirm.

Age is the primary risk for developing dementia. And this risk increases as one ages. Given these two facts, along with the aging population, it may be likely that nearly every American family will be impacted by dementia or Alzheimer's. Not everyone will experience its debilitating effects personally; however, most people alive today will likely be part of a dementia caregiver chain at some point in time.

This is why it is important to understand the warning signs, whether in your own behavior or in the behavior of your loved ones. Some of the earliest signs of dementia can be seen in a change in how people handle their finances. Difficulty with bill paying, record keeping and account monitoring tasks, as well as difficulty remembering computer passwords or understanding basic financial concepts, are all concerns to watch for.

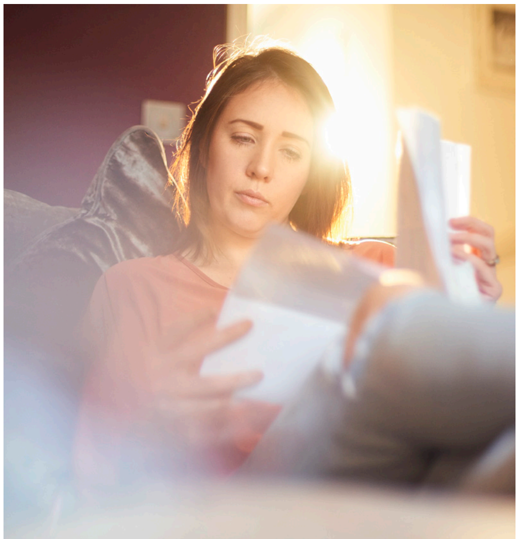
With early detection, the chance of costly financial mistakes or abuse can be mitigated and managed. Planning steps taken in advance of a dementia diagnosis can also help make the management process easier. This may be especially important for women, who live longer than men on average and may therefore be exposed to a greater possibility of suffering a decline in mental ability in addition to a greater potential cost of care for it.

As you age – or when you see someone you care about show early signs of capacity decline – one preventive step includes asking a trusted family member or close friend to review financial statements and transactions on a regular basis. It also includes providing your financial institutions with a trusted contact, which will help facilitate prompt discussions when there is suspected fraud or a decline in judgment.

Should dementia be diagnosed, swift action must be taken to help manage its implications. From a financial perspective, that means protecting against potential fraud, money mismanagement or even personal liability. The good news is that the securities industry now requires advisors to ask all clients for a trusted-contact number, which is designed to help protect the growing number of the vulnerable as the population ages.

By being aware of potential financial risks resulting from mental incapacity, knowing when it may be time to seek help, and making it clear whom we may contact on your behalf should we have reasonable concerns, you may feel more confident that appropriate measures are in place to help safeguard your financial security.

For more information, please contact us. You can also request a complimentary copy of *Taking Control of Health Care in Retirement*, a report recently published by RBC Wealth Management.



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