

## INSIDE


**› KEY DECISIONS FOR  
BUSINESS OWNERS 3**

Our new educational guidebook, *The Business Owner's Guide to Wealth Management*, explores 10 key decisions business owners may need to make concerning their personal and business assets. Inside we highlight one of these key decisions: "What can you do to deal with the unexpected?"

**› SWITCH TO eSTATEMENTS 4**

With eStatements, you can receive your official RBC Dominion Securities account statements online, instead of receiving paper statements in the mail. eStatements are convenient, easy to set up and help the environment by reducing paper waste.

## When the elephant sneezes...

By Jim Allworth

Canada's GDP shrank in the first quarter. Not by much – just one-tenth of one percent – and it was due to some special factors like the liquidation of inventories that would be easy to dismiss as one-time adjustments. But it remains that the decline was unexpected and that it stemmed for the most part from weaker U.S. demand for Canadian manufactured goods and for services.

It's worth noting that the U.S. economy for its part did not shrink in the first quarter – growth at 1% was sub-par but positive. So, merely slower growth in the U.S. managed to produce an outright decline for Canadian GDP – and this despite the fact that our domestic economy (i.e., minus the trade sector) continued to hum along at a respectable pace.

This development should remind us of an important distinction between the two economies: trade is a huge component of our economy and a comparatively much smaller one for the U.S. You can appreciate the extent of that difference by adding together exports and imports to see how big all transactions with foreigners are in relation to the total economy. For Canada, those two add up to a staggering 82% of GDP but in the U.S. they total just 30%. Also

consider that fully 80% of our exports head to the U.S. and the picture becomes even clearer: small changes in the U.S. economy can produce outsized effects here in Canada. The first quarter was a gentle reminder of that.

### Even China catches a cold

The same circumstance affects all countries where exports to the U.S. represent an important component of GDP, especially if those exports are mostly manufactured goods. China is a case in point. As the growth of U.S. consumer spending slowed from a pace of 3.5% per annum a year-and-a-half ago to less than 2% in the first quarter, the year-over-year growth rate of imports from China sagged from something over 20% to less than 2%. In March the value of Chinese goods imported into the U.S. actually fell by 1.3%, the first such decline in six years.

Anecdotally, one hears that Chinese manufacturers continue to see their U.S. order book weaken, not only because of muted spending by U.S. consumers but now also because soaring transportation costs are making many of their goods much less competitive in the U.S. market.

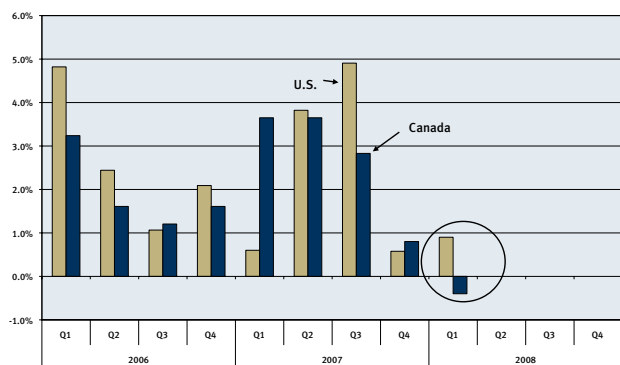
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## On the mend

But for the most part all of the forgoing is water under the bridge. Where might things go from here? By our reckoning the U.S. economy is passing through its period of maximum vulnerability. Increasingly the Fed's aggressive rate cutting, begun last September, is working its way into the economy. Reliable leading indicators suggest that later this year and into 2009 a better rate of economic growth should be in evidence. How much better is not yet clear.

Real GDP Growth – U.S. vs. Canada

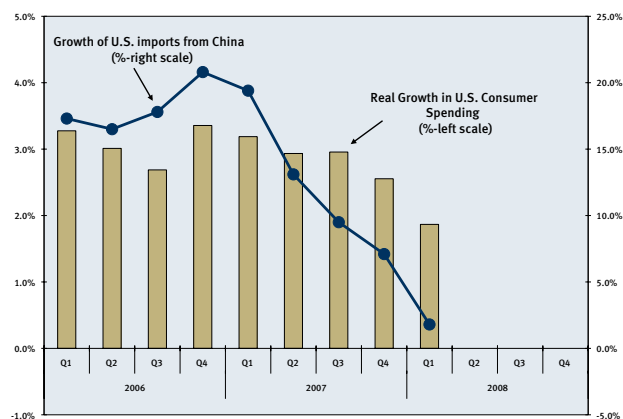


Here's one take on how things might develop. Economists at the Fed believe the long-term potential growth rate of the U.S. economy to be about 2.7% per annum. Through the years 2004 to 2006 GDP grew faster than this, at least in part because that was the period of aggressive lending by banks to so-called sub-prime borrowers. Now that banks have tightened their credit standards and, in any event, have less capital to support future lending, it might be prudent to look for a period of retrenchment during which the American economy grows at below-potential rates. 2007 was such a year and it's likely 2008 and 2009 will be as well.

Growing at say 2-2.5% per annum rather than at the 3-3.5% per annum that prevailed earlier in the cycle would present few if any difficulties for the U.S. itself. But for the economies that depend to some extent on the vigour of U.S. demand that sort of muted recovery might be less than they bargained or planned for.

So far in China weaker manufacturing shipments to the U.S. have been offset by very strong capital investment and by increased exports to the rest of Asia. But those other economies too may be feeling the drag of a diminished U.S. appetite for their own exports. And the expected pace of Chinese asset investment following this year's Olympics remains an open question in the view of most forecasters.

U.S. Consumer Spending vs. Imports from China



## A period of adjustment

While far from a foregone conclusion one could reasonably expect that a more extended stretch of sub-potential U.S. economic growth could usher in a period of adjustment for many other economies. That could include our own, as well as the newly industrialized and developing economies that have been accounting for much of the growth in demand for industrial commodities including energy. An interlude of more moderate global growth that flattened the trajectory of commodity prices would act to calm some of the recent concern about the future course of inflation.

**In our view, a period that was characterized by no U.S. recession, more moderate global growth, and contained inflation would be a good one for equity investors. For a fuller discussion of our Strategy Committee's economic and financial market outlook ask for the summer issue of *Portfolio Strategy Quarterly*.**

*Jim Allworth is Vice-Chair of the RBC Investment Strategy Committee.*



The following article is an excerpt from our new educational guidebook, *The Business Owner's Guide to Wealth Management – 10 Key Decisions for Business Owners*. For more information about the guidebook or any of the strategies discussed in this article, please contact your Investment Advisor.

## What can you do to deal with the unexpected?

**Prepare a plan to protect your business before adverse events occur**

By Susy Forner, CFP

Would your business be prepared if a catastrophic event occurred? Do you have a plan to cover the potential loss of a key person through choice or due to serious illness, disability or death or to mitigate the consequences of a divorce, which can have a substantial impact on a family business? Planning ahead can help you limit the damage to the business you have worked so hard to build.

### Insurance solutions

Insurance can provide some financial security if you are unable to work or earn an income due to an accident or illness. Several insurance strategies may be particularly significant in ensuring business continuity and security:

- › Purchase insurance to help you pay overheads and specific expenses for which you will continue to be responsible, even if you are temporarily incapacitated.
- › Fund a buy/sell agreement through an insurance policy. It can be a cost-effective way to enable business owners to purchase the shares of a partner or shareholder in the event of their death, disability or a serious illness.
- › Insure against the loss of a key person. Key person protection can be a cost-effective way to help protect your business against the consequences of losing a critical individual, whether they leave through choice, or due to death, critical illness or disability.
- › Consider the potential benefits of providing group insurance for your employees. This can be a valuable addition to your compensation structure, help ensure long-term employee loyalty and may make your company attractive to talented prospective employees.



### Retaining top talent

Analyse the potential business consequences of losing your most talented employees. To retain these valuable people, get to know them, reward them, keep them challenged and engaged, foster a team environment, offer them growth opportunities and provide a comprehensive and competitive remuneration package. These factors may help you maximize productivity and ensure business continuity.

### Consider a family business divorce strategy

Divorce can have a major financial and emotional impact on company morale, relationships and business performance. You may be able to minimize some of the negative effects through careful legal, succession and tax planning, but don't overlook the benefits of a comprehensive family business divorce strategy.

If the family business is the family's largest asset, a divorce can result in the sale of the business and division of the proceeds between the former spouses. In such a case the valuation of the business is often the central issue. A valuation expert can help resolve divorce issues and buy-out situations and achieve agreement on the fair market value of the business by obtaining input from everyone involved.

*Susy Forner, CFP, is a Financial Planning Analyst with our Wealth Management Services team.*

# Thinking about switching to eStatements?

Here are some key reasons to make the switch:

## It's convenient.

With eStatements, you can view your RBC Dominion Securities account statements through DS Online, our secure private client website. Plus, you can access a seven-year archive of past statements starting from October 2007.

## They're official.

eStatements in Adobe PDF format are official statements identical to paper-based statements in all important respects.

## It's secure.

Use your personal, confidential password to access eStatements through DS Online, which is secured by the latest 128-bit encryption technology to help protect your personal information.

## It's easy.

Simply log into DS Online, select the "My Accounts" tab on the left side, click on the "Statements" link, and follow the steps to switch your personal accounts. If you don't have access to DS Online yet, that's easy too – just contact your Investment Advisor.

## We can help.

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eStatements

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## INTEREST RATES APPLIED TO ACCOUNT BALANCES\*

As of June 22, 2008 our interest rates are as follows:

Credit balances	Canadian dollar accounts	US dollar accounts
Under \$10,000	0.25%	0.25%
\$10,000 – \$24,999	0.25%	0.25%
\$25,000 – \$49,999	0.50%	0.25%
\$50,000 – \$59,999	1.00%	0.50%
\$60,000 – \$99,999	1.25%	0.75%
\$100,000 and over	1.75%	1.00%

Debit balances	Canadian dollar accounts	US dollar accounts
Under \$10,000	6.75%	7.25%
\$10,000 – \$24,999	6.50%	7.00%
\$25,000 – \$49,999	6.25%	6.75%
\$50,000 – \$99,999	6.00%	6.50%
\$100,000 and over	5.75%	6.25%

### Registered accounts

All credit balances 0.25% All debit balances 6.75%

The interest rates that will be in effect for debit balances in cash and margin accounts fluctuate with prime as follows:

Debit balances	Canadian dollar rates <sup>†</sup>	US dollar rates <sup>†</sup>
Under \$10,000	\$CDN Prime + 2.00%	\$USD Prime + 2.25%
\$10,000 – \$24,999	\$CDN Prime + 1.75%	\$USD Prime + 2.00%
\$25,000 – \$49,999	\$CDN Prime + 1.50%	\$USD Prime + 1.75%
\$50,000 – \$99,999	\$CDN Prime + 1.25%	\$USD Prime + 1.50%
\$100,000 and over	\$CDN Prime + 1.00%	\$USD Prime + 1.25%

<sup>†</sup>Based on prime rates as of June 22, 2008.

\$CDN Prime= 4.75% and \$USD Prime= 5.00%. Rates are subject to change.

\*RBC retains the right to change interest rates on a discretionary basis. A committee comprised of individuals representing various authorities within RBC Dominion Securities administers these interest rates. These rates are adjusted from time to time based on various factors, including, but not limited to, competitive analysis, Bank of Canada and other bellwether rates, and/ or cash rates. Interest amounts less than \$5 are neither charged nor paid on regular accounts and interest amounts less than \$1 are neither charged nor paid on special product accounts. Rate changes of less than 1% will be processed on the 22nd of the month. The average daily cash balance for the month determines the tier that will be used to establish the rate.



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