

WEALTH | review MANAGEMENT

A QUARTERLY PUBLICATION FOR OUR PRIVATE CLIENTS

APRIL 2007

INSIDE



› THE NEW DS ONLINE 3

Newly redesigned, DS Online features a range of additional and expanded services to help you stay up-to-date on your investments. Upgrades include intraday holdings and balances, 16 months of historical account information and a new Markets and Movers page.



Reality check

We may sound like a broken record but our view on the markets and economy hasn't changed much over the past 18 months. And it still hasn't — despite a market correction, which has served to reintroduce "risk" to the investor's vocabulary.

OUR VIEW REMAINS POSITIVE

- The Fed has engineered a "soft landing" for the U.S. economy by raising interest rates just enough to head off a dangerous build-up in inflationary momentum but not so high as to produce a recession.
- Moderate growth with contained inflation in the world's largest economy should extend the global economic expansion for at least several more years — and by implication the global commodity cycle as well.
- Historically, an extended economic cycle accompanied by contained inflation has been very good for equity markets as investors become more confident and bid up share prices, often faster than earnings are growing.

And that's what we're forecasting: earnings growth slows as the North American economy gears down to a more moderate pace of expansion. But stocks advance as contained inflation and benign interest rates persuade investors to capitalize each dollar of earnings at a higher rate. In other words, a continuation in the bull market for equities.

THE RETURN OF VOLATILITY

Sticking with that forecast and investing accordingly is easy in the abstract but much more difficult in the day-to-day world where instant-analysis debate and conflicting opinions are the rule, pumped up by a constant flow of backward-looking economic data, most of it subject to major revision at a later date. And, of course, there is the market itself, which, viewed from up close, seems to move erratically and unpredictably in directions that are often at odds with expectations.

Never more so than recently. After a period of protracted calm during which the S&P 500 went some 154 trading days without a daily decline of 2% or more — the longest such stretch in more than 50 years — the spell was broken with the 3.5% drop on Feb. 27. The ensuing correction may or may not have run its course, but it has reacquainted investors with volatility and risk.

And, we believe, at a timely juncture. Very low market volatility had fuelled a growing belief that stocks could deliver highly predictable returns. Risk premiums had declined on many risky assets around the world. Yields on emerging market and high yield bonds had fallen to their lowest levels relative to U.S. Treasuries since the early 1990s. Emerging market stocks delivered double- and triple-digit returns over

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a year or less, while many stocks on the Venture Exchange reached new highs on record volumes.

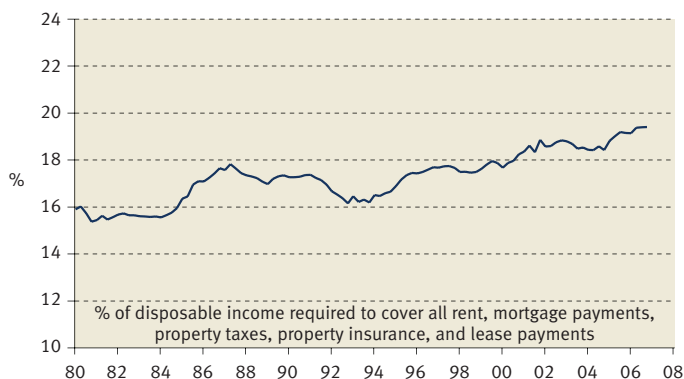
The correction may bring back a healthy dose of skepticism, thereby limiting the risk that widespread speculation will create the kinds of imbalances that ultimately bring about the end of an economic cycle.

A WEAKER HOUSING MARKET

Over the same interval, economy watchers and investors have also become preoccupied with the spectacle of sub-prime mortgage loans going bad in the U.S. This issue has quickly blown up into another breathless examination of the supposed fragility of the American consumer and household finances.

The Royal Bank's Economics Group has made a valuable contribution to this debate. A paper published in December by Assistant Chief Economist Derek Holt ("Why the U.S. consumer can withstand weaker housing markets") examines the data around this issue, concluding that today's higher mortgage rates are not likely to "spark a sustained recession in either consumer spending or the broader U.S. economy . . ."

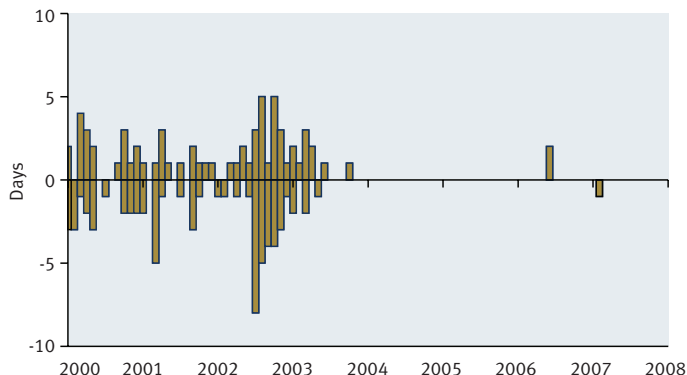
U.S. Household Financial Obligations Ratio



Source: Board of Governors of the Federal Reserve System

S&P 500 Composite Index Monthly Volatility

Daily Observations Within Month Above/Below 2.0%



Source: RBC AM

SOME FACTS TO NOTE:

- Sub-prime mortgage loans account for 13% of mortgages outstanding; 77% are rated "prime" and 10% are government guaranteed. Some 34% of U.S. homes support no mortgage or home equity loan at all.
- Two years ago almost 40% of new mortgage loans were "adjustable rate" whereby the borrowers were vulnerable to reset rates potentially above the interest rate they had been paying. That share has dropped to 20%.
- Adjustable rate mortgages (ARMs) in total are 25% of mortgage loans outstanding. Assuming the worst — i.e., \$2 trillion of ARMs reset in one year at rates 3% higher than the borrower currently pays (highly unlikely) — the cost to households would be an additional \$60 billion in annual interest payments. By comparison, this year household incomes are forecast to rise by more than \$500 billion.
- Adjustable rate mortgages account for almost 75% of mortgages in Germany where unemployment is still above 9% and household incomes are growing only slowly. They are equally high in Spain, the U.K., Ireland and Australia, among others.

"Home equity withdrawal" has already fallen sharply as a percentage of disposable incomes and, in any event, has proved to have only a very weak correlation to consumer spending. Home equity loans have for the most part gone to finance home renovations, to pay down high cost debt and to acquire financial assets (i.e., build up liquid cash reserves). The average American household today has almost half a year's income in the bank in cash, almost twice as much as a decade ago.

GROWTH IS SUSTAINABLE

We don't believe either the stock market decline or the weaker American housing market portend a shift in economic expectations, or that the fallout from both will be so large that it alters what's ahead for global growth. Over the past half century, the U.S. economy has moved through seven soft landings. Slowing growth to a sustainable pace has lengthened the economic cycle by a median of 39 months, counting from the final hike in the fed funds rate, although some cycles have extended much longer. It's not unreasonable to look for another three years of growth before the next recession sets in, and a bull market that could survive until the end of the decade.

For a fuller discussion of our economic and market outlook, please ask for the latest issue of *Portfolio Strategy Quarterly*. For RBC Royal Bank's paper on the housing market, please go to www.rbc.com/economics/market/special.

The new DS Online

Newly redesigned, DS Online features a range of additional and expanded services to help you stay up-to-date on your investments.

Through the new DS Online, you can access all the same services as before — account balances, customized watchlists, timely market updates and more — from the convenience of your personal computer.

But the new DS Online also features several upgrades, including:

- ▶ **INTRADAY HOLDINGS & BALANCES:** Check the value of your North American equity positions based on current market pricing. See the impact of any transactions on your holdings and balances throughout the day.
- ▶ **DETAILED ACCOUNT INFORMATION:** View 16 months of historical account information.
- ▶ **ENHANCED RESEARCH:** The new Markets and Movers page provides current trading day market snapshots, commentary, news, movers and multiple watchlists.
- ▶ **MORE POWERFUL SEARCH TOOL:** Search news headlines by keyword, stock symbol or industry category under the Stocks tab.
- ▶ **MULTIPLE QUOTES:** View streaming quotes for up to 15 stocks. When you return to the multiple quotes page, the same stocks and options will display again.
- ▶ **FOREIGN CURRENCY SUPPORT:** U.S. (USD), British (GBP), Euro (EUR), Japanese (JPY), Australian (AUD), Turkish (TRY) and New Zealand (NZD) currencies are all now supported.
- ▶ **TOP RATES:** View the current day's top GIC rates.

In addition, we have expanded our online help and FAQ resources to make it easier for you to use DS Online.



DS Online has been redesigned to make it easier for you to find the information you need.



The new Markets and Movers section brings together market news, commentary and charts all on one page.

New to DS Online?

Here is a brief overview of the services offered by DS Online:

- › **Account information:** You can quickly view your current account value, holdings, activity and order status through any computer with secure Internet access, 24 hours a day, seven days a week. DS Online is secured with the latest 128-bit encryption technology.
- › **Link with RBC Online Banking:** If you bank with RBC Online Banking, you can use the same login and password to access DS Online. Once you are logged in, you can switch between your various RBC accounts. You can also transfer funds between your RBC Royal Bank and RBC Dominion Securities accounts.
- › **Customized watchlists:** Create up to 15 separate “watchlists” of stocks you want to monitor.
- › **Market quotes:** Get the latest values for stocks, options, mutual funds and market indexes.
- › **Timely market updates:** Read today’s top stories from Reuters and get “market snapshots” of major North American indexes, including the S&P/TSX, Dow Jones and Nasdaq.

DS Online is a complimentary service for clients of RBC Dominion Securities.

For more information about DS Online, and whether it's right for you, please contact your advisor. If you have already signed up for DS Online, and need assistance using it, feel free to contact our DS Online Help Desk.

DS Online Help Desk

Canada (toll-free): 1-888-820-8006

International: 1-416-313-7374

E-mail: rbcinvestments-techsupport@rbc.com

The DS Online Help Desk is ready to assist with any technical questions you may have about using DS Online. If you have a specific question related to your account, please contact your advisor.

COMING SOON

DS Online enhancements in the works include a new message centre, e-statements for most account types, and much more.

INTEREST RATES APPLIED TO ACCOUNT BALANCES*

As of March 22, 2007 our interest rates are as follows:

Credit balances	Canadian dollar accounts	US dollar accounts
Under \$10,000	1.25%	2.50%
\$10,000 – \$24,999	1.50%	2.60%
\$25,000 – \$49,999	1.75%	3.10%
\$50,000 – \$59,999	2.25%	3.35%
\$60,000 – \$99,999	2.50%	3.75%
\$100,000 and over	3.00%	4.00%

Debit balances	Canadian dollar accounts	US dollar accounts
Under \$10,000	8.00%	10.50%
\$10,000 – \$24,999	7.75%	10.25%
\$25,000 – \$49,999	7.50%	10.00%
\$50,000 – \$99,999	7.25%	9.75%
\$100,000 and over	7.00%	9.50%

Registered accounts

All credit balances 0.50% All debit balances 8.00%

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 [†]	US dollar rates [†]
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%

[†]Based on prime rates as of March 22, 2007.

\$CDN Prime= 6.00% and \$USD Prime= 8.25%. Rates are subject to change.

*RBC Financial Group 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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