

## Finding the Right Balance

Safety or growth? The good news is you don't have to choose. A balanced fund combines the growth potential of equities with the security of fixed income investments.

While some investors may see themselves as better suited to fixed income investments or equities, the truth is that for many Canadians the ideal investment solution lies somewhere in the middle.

### Fixed income: safety and regular income

Fixed income investments are an important foundation of any portfolio. They protect capital and provide stability while generating modest income. In the case of bonds, there is also the potential for some capital appreciation.

However, in today's low interest rate environment, fixed income may not be enough for some investors. For example, the cost of living for Canadians rose 2.7% over the past year according to the consumer price index, while the yields on a three-month treasury bill and a 10-year Government of Canada bond are roughly 1% and 2.5% respectively.

With this perspective, it's not hard to see why many investors struggle to protect their capital and grow their investments, especially in uncertain markets.

### Equities: long-term growth with some volatility

Equities have historically provided extra growth and outpaced the rate of inflation, which is essential for maintaining purchasing power and achieving long-term goals, such as retirement.

But we have seen that in the short-term, equities can be volatile. In the first half of 2011, markets moved up as the global economy recovered, then down in response to a variety of events, including rising interest rates in China and India, debt problems in the US and Europe, the earthquake in Japan and conflict in the Middle East.

Given these ups and downs, most investors feel more comfortable keeping at least some of their portfolio in fixed income investments that can help smooth things out.

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## A balanced solution

Rather than trying to find the right balance between equities and fixed income on your own, a great solution is to select a balanced mutual fund that does it for you. A balanced fund allows you to:

### Manage volatility

A balanced fund combines equities and fixed income investments in a single portfolio to create synergy. When one part of the portfolio is underperforming, it may be offset by gains in the other part, keeping volatility in check.

### Take advantage of opportunities

A balanced fund lets you participate in the growth opportunities of equities with less risk. Some balanced funds have the ability to increase or decrease exposure to equities or bonds in order to take advantage of prevailing market conditions.

### Enhance your potential return

The equity portion of a balanced fund can generate capital gains and dividend income to complement the interest income from fixed income securities. This can result in more return potential than a pure fixed income portfolio.

### Enjoy peace of mind

Perhaps most importantly, a professionally managed balanced fund lets you tune out the daily “noise” of the marketplace. No matter what happens day-to-day, you can rest assured that you are invested in a way that creates growth potential while helping to manage risk.

Investing in a balanced fund is a long-term strategy that gives you the best of both worlds – the stability of fixed income investments with the higher return potential of equities. Talk to your *Scotia*® advisor to see if a balanced fund is a good fit with your investment goals and risk tolerance.



A balanced fund provides more return potential than fixed income and less volatility than equity investments alone.

## New: Scotia Income Advantage Fund

Introducing a balanced fund that shifts in response to market changes, with a focus on generating income.

If your first priority is income, and you want to take advantage of evolving market opportunities, Scotia Income Advantage Fund may be right for you.

This new fund invests in a wide range of fixed income securities and income-earning equities – allowing you to increase your income potential while still leaving some room for growth. The balance within the portfolio is flexible, so our award-winning investment managers can respond to market changes to seize opportunity and manage risk. It's a strategy designed to give you more income-generating potential when markets are thriving, and reduce the impact on your portfolio when markets are uncertain.

Quite simply, Scotia Income Advantage Fund is a balanced fund that gives you “more.”

- More flexibility to respond to market conditions
- More investment options
- More income with regular monthly distributions
- More active risk management to lower volatility
- More award-winning investment managers

Contact your *Scotia* advisor to find out if Scotia Income Advantage Fund is right for you.

## GIC Laddering Strategy

Many fixed income customers are primarily looking for a strategy that allows for a guaranteed return along with some flexibility. For these customers, a GIC Ladder may be just the answer. While not a new strategy, it takes the guess work out of renewing your term investments.

Having your GICs come up for maturity at different times

can potentially maximize returns and reduce your portfolio's sensitivity to interest-rate changes. This allows you to reduce what is known as "interest rate risk".

Speak to your *Scotia* advisor. They'll be able to illustrate the effects of this strategy and provide additional insight into how to customize it to fit your needs.

# Rethink: Use your TFSA for retirement savings? Yes.

You may think your TFSA is just for short-term goals or "rainy day" savings. But your TFSA can also be great for retirement savings. Here are three reasons why.

### 1 Contribution room really adds up

At \$5,000 per year, the contribution limit on your TFSA can add up fast. In fact, if you haven't yet invested in a TFSA, you now have \$15,000 of contribution room (\$30,000 for a couple), since your lifetime yearly allowance started accumulating in 2009. If you and your spouse invested \$5,000 each per year for 25 years and earned investment gains of 5% annually, a TFSA would give you a \$500,000 nest egg in after-tax dollars\*.

### 2 Great tax benefits later on

It can be difficult to compare the tax benefits of saving in an RRSP versus a TFSA over the full life of the plans. In an RRSP, your tax bill is paid at the end when you make withdrawals. With a TFSA, your tax bill is pre-paid so the money withdrawn in the future has no strings attached. Depending on your situation, the long-term tax advantages of a TFSA could be equal to that of an RRSP.

### 3 The potential to perform like an RRSP

Take advantage of the fact that a TFSA can hold virtually all of the same investments as an RRSP. Make sure your funds are invested in a fully diversified portfolio to optimize their return potential. A *Scotia* advisor can help you decide which investments are best for your goals.

## When a TFSA beats an RRSP

With an RRSP, you save tax when your tax rate in retirement is lower than when you made the contribution. That assumes you have high income now and a low income later. But what if that's not the case? Here are two situations where you might want to consider investing in a TFSA first:

### You are in a low tax bracket now

If you are in a low tax bracket now – especially if you earn less than \$40,000 per year – you won't be making the most of the tax savings from an RRSP and might be better off saving in a TFSA.

### You will be in a high tax bracket in retirement

If your income in retirement is already going to be significant – perhaps because you have a pension or you already have considerable savings in an RRSP – you might want to focus your future savings in a TFSA so you can access them without increasing your taxable income. This strategy may even help you avoid claw-backs to your OAS or GIS income during retirement.

In a perfect world, everyone would maximize their RRSP and TFSA contributions every year. But when you need to make a choice, it pays to get good advice. Talk to a *Scotia* advisor about your individual situation.

\* This example assumes no withdrawals from the TFSA and constant annual returns for each product held within the TFSA which are compounded annually. Actual returns will vary depending on several factors including varying interest rates, your investment choices, the outstanding balance and the amounts and timing of contributions to the TFSA. The returns you earn may not be compounded.

# Market Minute

The last few months have been challenging for global financial markets. With emotions running high for many investors, Scotia Asset Management – portfolio manager to Scotia INNOVA Portfolios™, Scotia Selected® Portfolios and Scotia Partners Portfolios® – offers some thoughts on the current headwinds facing markets and how they are managing the Scotia Portfolios through the volatility.

A number of factors have dominated headlines in recent months including European sovereign debt concerns, a slowdown of global economic indicators and the much-debated fiscal standing of the United States. Each event represents a potential distraction for financial markets. Combined, they have weighed on the performance of equities and renewed concerns about the sustainability of the global recovery.

With the 2008 financial crisis still visible in the rear view mirror, it is understandable why comparisons are drawn with current developments. There are however important differences between the situation then and now, including today's liquid credit markets, cash-rich corporate balance sheets and continued, albeit slow economic growth.

Although our economic forecasts have been revised lower, our medium and longer-term outlook for equities remains positive. Our view is based on attractive valuations, strong corporate profitability, growing dividends and share buy backs. Fixed income investments should continue to anchor balanced portfolios – offering regular income and added stability. At the same time, the prevailing low interest rate

environment continues to drive many investors to seek higher-yielding alternatives to traditional fixed income investments.

Through this period, Scotia Asset Management's primary focus remains rooted in the fundamentals of high quality securities and a disciplined process of uncovering compelling long-term investment opportunities.

The temptation for investors to abandon long-term strategy oftentimes takes place when opportunities are at their greatest. Attractive buying opportunities followed the global financial crisis in 2008 and strong market returns followed. Volatility is a normal, if sometimes unsettling part of investing. And while no one can say how long any period of volatility will last, history demonstrates that markets eventually recover and long-term investors are rewarded.

When financial markets are choppy, the natural impulse for many investors is to *do something*. A Scotia advisor can help you stay focused on your investment goals and position you for long-term success.

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