Scotiabank
investmentinsights

Dedicated to helping you get ahead financially.

Summer 2011

Taking stock of your investments

With summer here, it is a great time to step back, reflect and take stock of where you are with your investment plan. Here are just a couple of things to consider:

Are you Emotionally Invested?

Since the latter part of 2010, a number of exceptional, global events have had an impact on financial markets. These include upward pressure on energy prices, European debt concerns and key drivers of the U.S. economic recovery. Spikes in market volatility are unsettling for many and can even prompt some investors to abandon their long-term plan for the short-term relief that very conservative investments offer. When the temptation to exit for the sidelines takes hold, ask yourself if the latest headline-grabbing event really changes your personal goals. Odds are it doesn't.

Studies have shown that investors who tune out the majority of the noise are able to make better investment decisions than those who subject themselves to the constant flood of information.* Keeping your emotions in check will enable you to make better investment choices, view your portfolio with less anxiety and ultimately help you meet your financial goals.

Reach your goals faster with the right plans

Are you taking full advantage of all of the tax-free or tax-deferred savings options available? In addition to the Registered Retirement Savings Plan (RRSP) and the Registered Education Savings Plan (RESP), many Canadians are also seeing their savings grow with the Tax Free Savings Account (TFSA) and the Registered Disability Savings Plan (RDSP). Making the right contribution to the right plan at the right time can help you get ahead faster – especially when there's a government grant or tax deduction available. Your *Scotia* advisor can help you understand the various plans and decide on a strategy that will maximize your savings for retirement, a major purchase, the care of a family member, or a child's education.

Whether you are feeling optimistic or cautious about investment opportunities today, a *Scotia* advisor can help you to stay focused and on track to reaching your long-term goals.

You're richer than you think.®

Scotiabank Group®

* Scotiabank® Consumer Insights study

Take your investments on vacation with you

Do you spend the winters or vacation in the U.S. frequently? Do you live in a border city or own real estate in the U.S.? Perhaps you expect to help a child attend an American university and want to ensure the future value of your education savings.

If some of your current or future expenses are paid in U.S. dollars, a U.S. dollar-denominated investment can help eliminate the volatility of currency swings. With the loonie's recent highs against the greenback, matching the currency of your investments to your expenses can be an effective strategy – now more than ever.

Introducing Scotia U.S. $ Balanced Fund

With interest rates near historic lows, Canadians seeking a longer-term alternative to cash and other short-term investments can now look to the Scotia U.S. $ Balanced Fund for higher growth potential. The fund takes advantage of the broader and deeper U.S. equity and fixed income markets by investing primarily in a diversified mix of American-dollar bonds and stocks.

Managed by our award-winning portfolio management team, the fund is uniquely positioned to capitalize on investment opportunities in the world's largest economy while avoiding foreign-exchange risk.

Scotia U.S. $ Balanced Fund highlights

For investors:

- Who want the option of investing in U.S. dollars
- Who are seeking balanced exposure to stocks and bonds of the world's largest economy
- With a medium to long-term time horizon

Scotiabank also offers other options for maintaining investments in U.S. dollars, including U.S. Dollar Guaranteed Investment Certificates (GICs) in terms as short as one day and up to five years.

Whether you have U.S. dollar expenses now or anticipate them down the road, a *Scotia*® advisor can help ensure you are invested wisely.

Market trends

The Economy:

- The global economic recovery remains fractured as continued strong growth from emerging markets contrasts more moderate expansion in developed markets. Recent economic improvements in the United States are welcome news, although high oil prices and a soft housing market will likely temper the pace of growth. While the Canadian economy has enjoyed relatively strong performance, the outlook remains dependent on the performance of the global economy as well as demand for commodities.

Fixed Income:

- At the time of writing, the Bank of Canada held its overnight lending rate constant at 1%, given slower-than-expected GDP and employment growth in the U.S. and its potential negative impact on Canadian economic growth. Our overall total return outlook for fixed income markets in 2011 remains constrained, given a backdrop of low bond yields and increased inflation. Government of Canada bonds and the highest quality corporate bonds are well positioned in this environment of limited pressure on interest rates.

Equities:

- Sparked by uncertainty due to recent global events, equity market volatility increased in the first half of the 2011. As global growth continues, albeit at a potentially reduced level, Canadian equities should perform well in the second half of the year. The ongoing U.S. recovery coupled with continued Asian growth and the rebuild of Japan will drive demand for many commodities. Stable and low interest rates and a slight rise in bond yields should continue to make other investments, including equities, an attractive alternative.

Let the Saving Begin

In July of 2010, Scotiabank introduced **Let the Saving Begin** to Canadians as a response to the widespread sense that we needed to get back on track with our financial health.

With three key principles, we encouraged people to:

- **Save automatically, because it works.**
- **Invest for your future, because no one else will.**
- **Borrow to get ahead, not fall behind.**

As part of this program Scotiabank asked *Valerie Pringle* – award-winning journalist – to come on board as Saving Ambassador to help start a saving movement across Canada. Valerie traveled across the country, visiting 16 communities in seven provinces, and engaged Canadians on Facebook in a conversation about saving, investing, and borrowing and listened to their ideas on how we could all do better.

The conversations and insights from her tour have been extremely rewarding and indicate a real hunger for honesty and information. Canadians want to take action on their financial health and hopefully these conversations will help inspire all of us to save more, invest more and borrow smarter.

To read the full report or watch it on video, please visit
www.LetTheSavingBegin.com

Challenges & opportunities for Canada as global growth slows

Aron Gampel, Vice-President and Deputy Chief Economist
Sarah Howcroft, Economist Scotiabank Group

Global equity markets recently celebrated the two-year anniversary of an impressive rebound that began in early 2009. Several of the factors that helped turn many economies around remain quite supportive of global growth, including accommodative monetary policies in the developed world that have kept short-term borrowing costs at record low levels; residual fiscal stimulus working its way through some economies; businesses that continue to generate profits and reinforce the recovery through expanded production, capital investments, and increased M&A activity; increasing consumer spending alongside improving job markets; and the strong output growth in most emerging nations which provides support to the global economy through imports and demand for commodities.

Even so, the pace of global growth is expected to moderate this year. In the developed world, many central banks will begin or resume the normalization of interest rates, governments will look to rein in fiscal deficits, corporate profit margins will be squeezed by rising commodity prices and increasing labour costs, and many debt-laden households will become more cautious spenders as rising food and energy prices eat into purchasing power. Furthermore, a number of fast-growing economies in the emerging markets are raising interest rates to quell excess credit creation and rising inflation.

In this challenging global environment, Canada must take a number of steps – building on prior growth-sustaining initiatives – to help cushion the economy against increasing turbulence:

1. Canada must continue to diversify its trade ties to the faster-growing regions of the world because the pace of economic activity in our traditional trading partners, notably the United States, will likely be restrained in the medium term. Development of our vast resource sector, and distribution channels, should be fast-tracked.
2. Canada must continue to pursue policies and investments that will bolster productivity and knowledge-based manufacturing and service-related output. This is particularly true today with the loonie appreciating and commodity prices surging, and the fact that many of the world's most populated countries are much lower-cost producers of manufactured goods.
3. Canada must continue to advocate for freer trade around the world. Only by levelling the international playing field and allowing competitive forces to generate increased efficiencies can businesses take full advantage of the opportunities for expansion.
4. Canada's monetary officials must remain vigilant on inflation and expectations. This will ensure that domestic borrowing costs remain at pro-growth levels, and help to anchor longer-term interest rates.
5. All levels of government in Canada must make a renewed commitment to fiscal integrity. Only by re-establishing budgetary surpluses can jurisdictions reverse the run-up in debt, and regain the fiscal flexibility needed to redirect interest savings to higher priority needs.

In a world of distinct challenges, Canada's diversified and financially stronger economy is well-positioned to ride out the global turbulence, and has the potential to become an outperformer internationally.

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