Inside INNOVA
Solid. Stable. Considered.
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Market volatility tests investors' patience

The seemingly endless barrage of bad economic news from the financial crisis, to European woes and to consumer debt worries can wear down the resolve of many investors and can trigger investor fatigue.

Too often, this fatigue can cause investors to narrow their focus and ignore the larger picture. Consequently, while many investors are aware of the trials and tribulations of the European economy over the past few years, some would be surprised that the European equity markets provided positive returns in 2012. The MSCI Europe Index is up 8.2% (as of Sept. 30) and an impressive 11.5% over the past 12 months*.

So, recognizing symptoms of investor fatigue is important to help avoid over reaction, missing opportunities and jeopardizing your long-term plans and goals.

Hang in there

One of the most severe reactions by some investors is to just give up. Some feel selling their investments is easier to deal with than coping with continuing uncertainty.

"One of the biggest mistakes I see is investors taking their money off the table at the wrong time, often because nobody has helped them to understand what the risks are," says Bill Girard, INNOVA Canadian Corporate Bond Pool manager.

Staying fully invested, even during volatile times can make a difference in the long-term.

Investors who started with $10,000 in 2001 and stayed fully invested would have seen their savings grow to $17,545. But missing just ten of the best days in the last ten years would have seen their savings shrink to $9,556.**

"In these times, it's important to stay on course," says Bill.

Here's another way to look at it:

Imagine another investment you may have—your home—rising in price by 20% in two years. Would you sell it and move? Conversely, what if your home dropped in price by 25% in one year? Would you pack up everything and sell? Do your long-term goals change in either situation?

Most of us would stay put.

Continued page 2 >

Pitfalls of Market Timing**

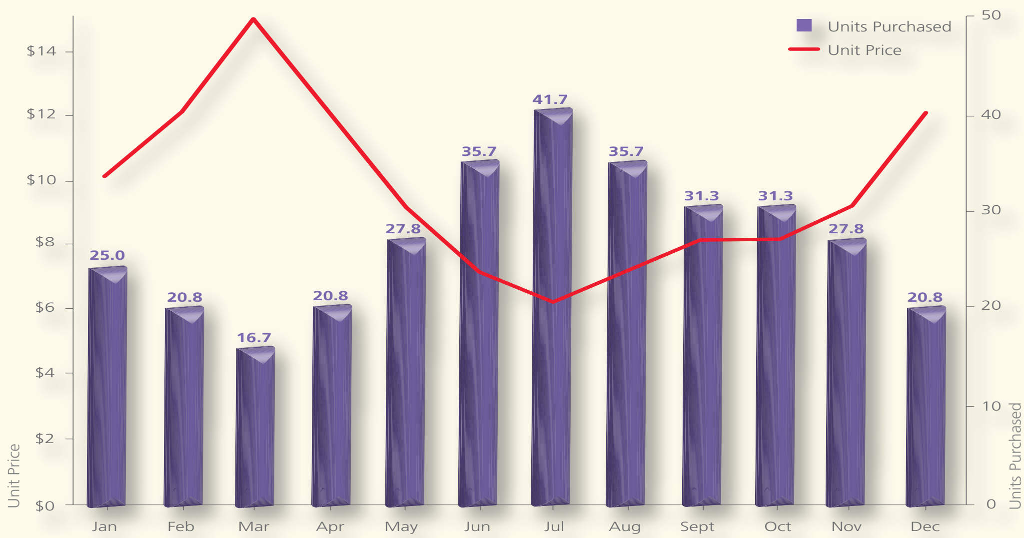
For the majority of investors, trying to time the ups and downs of the market can be costly. Consider the impact of missing the best days on the value of Canadian equities over the past decade.

*Zephyr STYLEAdvisor, As of Sept. 30, 2012

** Morningstar Direct, S&P/TSX Composite Index TR from November 30, 2001 to November 30, 2011

Make Market Volatility Work For You

Investing regularly is simple, easy, and makes a lot of sense. Pre-authorized contributions can ease the stress of trying to come up with a lump sum of money to invest occasionally. It can also help you get market volatility working for you and lower the average cost of your investments through dollar cost averaging.



The above chart illustrates regular monthly contributions of $250 at the beginning of each month. As the unit price fluctuates from month to month, the quantity of units purchased also changes.

Because of these fluctuations, the monthly pre-authorized contributions can take advantage of dollar cost averaging. The table (inset) highlights how pre-authorized contributions are able to benefit more than the lump sum contribution.

Pre-Authorized Contributions **VS** Lump Sum Investing

	Monthly Pre-Authorized Contributions	Lump Sum at Beginning of the Year
Total Invested at Year End	$3,000	$3,000
Total Number of Units Purchase by Year End	335.30	300.00
Year End Value of Portfolio	$4,024	$3,600
Gain at Year End	$1,024	$600
Avg. Cost for the Year	$8.95/unit	$10.00/unit

Charts are for illustration purposes only and do not represent the performance of an actual mutual fund.

> Continued from page 1

After all, we still need a place to live and the cost and time to constantly move would not get us far ahead in the long run.

For the most part, your retirement plans are 20 to 25 years away or longer. Whether the market goes up fast or drops fast, your long-term plans and goals don't dramatically change.

Too Little Risk is Risky

Another sign of fatigue is when investors put their investment plans on hold. They become increasingly cautious with their savings and move their existing investments to the perceived safety of the sidelines.

While this kind of preservation strategy may be appropriate for certain investors with more imminent goals, these moves as a reaction to uncertainty can undermine long-term investment goals.

"Despite the short-term volatility, market conditions appear to be lining up to provide opportunities for those who remain patient," says Alex Lane, Scotia Canadian Growth Fund manager.

"This environment can be profitable for the patient and disciplined, but short-term volatility can be unnerving," adds Bill.

An easy way to turn volatility into opportunity is to dollar cost average. Pre-Authorized Contributions can allow you to stay invested a little at a time automatically.

Stay Tuned In

While it's good to tune out the day-to-day noises of the market, some investors with fatigue push it to the extreme. Avoiding reading your statements and burying your head in the sand and ignoring your investments completely is not prudent either.

Over time, your life can change. You get married, get a new job, have children, get promoted, receive inheritance and these events can have a significant impact on your financial plan and goals. During these times, it's always good to sit down with your Scotia advisor and review your goals and plans to see if any adjustments are needed.

Staying On the Right Path

Being able to recognize and deal with investor fatigue is important to keep you on the right path. After all, reaching your financial goals is not always along a straight, paved road. The path can be winding, bumpy, uphill and hard to see. But, no matter where your life takes you, it's important to keep in touch with your Scotia advisor on a regular basis. Your advisor can help you keep on the path to reach your goals and plans and adjust them to meet any new life circumstances. ■

Lucky by Design

You may have friends, relatives or colleagues who are setting out to enjoy their retirement. Did you think to yourself how 'lucky' they are? They now have the time to do whatever they want.

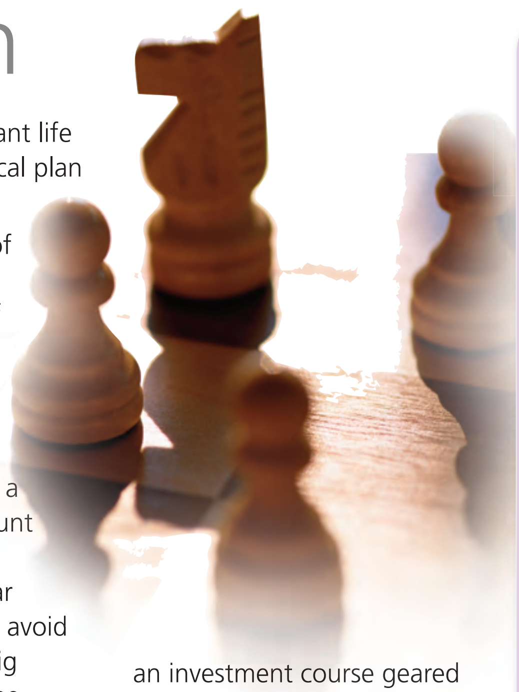
In reality, free time is one part of retirement. Good planning to achieve your ideal retirement is the other aspect. And luck has little to do with it.

But planning doesn't mean sticking to a rigid master plan. After all, life is about change. You get a job; get married; receive a promotion; have children. Your plan should reflect decisions during various important life stages, forming a logical plan and sticking to it.

Unfortunately, many of us save for retirement without the benefit of such a plan. Instead, you may make annual contributions to a Registered Retirement Savings Plan (RRSP) or a Tax Free Savings Account (TFSA), with good intentions, but no clear direction. Or, you may avoid thinking about your big picture goals due to the seemingly complex questions that are involved.

A better approach is to sit down with a Scotia advisor who has the knowledge and practical tools to help you answer your questions. Together you can establish your goals, desired retirement lifestyle, as well as develop an investment course geared to your comfort level. Your advisor can also suggest ways to fit retirement saving with life's other priorities.

With a straight-forward plan to guide you, you can forget about luck, and feel confident that you are in control of your ability to live well in retirement. ■



Words from the Wise

– Pearls of wisdom from some of our top investment minds

"We are optimistic that in spite of the headwinds for equity markets investors will be rewarded with continued positive returns from the Canadian equity market in the fourth quarter."

Sue Lavigne, Portfolio Advisor, Scotia Private Canadian Equity Pool

"The recent rally in stocks notwithstanding, we remain in a challenging macro environment. We don't know when we will see relief, but believe the market will reward companies that can grow revenues rapidly – even in a poor economy."

Brendt Stallings, Portfolio Advisor, Scotia Private U.S. Mid Cap Growth Pool

"Corporate and high-yield bonds continue to benefit from unprecedented investor appetite – caution is warranted and we maintain a prudent approach to generating total return."

Christine Horoyski, Portfolio Advisor of Aurion Income Opportunities strategy

"Against the elevated market uncertainties we face, we remain focused on financially sound companies, modest exposure to the European financial sector and broad geographic diversification."

William V. Fries, Portfolio Advisor, Scotia Private International Equity Pool ■

Portfolio Performance (as at September 30, 2012)

SCOTIA PORTFOLIOS	3 Mths	6 Mths	1 Yr	2 Yrs	3 Yrs	Since Inception
Scotia INNOVA™ Portfolios Series A						
Scotia INNOVA Income	1.59%	2.26%	6.64%	4.23%	4.90%	7.01%*
Scotia INNOVA Balanced Income	1.90%	1.75%	7.59%	3.95%	4.70%	7.80%*
Scotia INNOVA Balanced Growth	2.37%	0.88%	8.64%	3.39%	4.24%	7.99%*
Scotia INNOVA Growth	2.71%	0.24%	9.40%	2.86%	3.75%	8.56%*
Scotia INNOVA Maximum Growth	3.21%	-0.72%	10.98%	2.12%	3.10%	8.37%*
Scotia INNOVA™ Portfolios Series T						
Scotia INNOVA Income	1.59%	2.26%	6.65%	4.23%	–	4.99%**
Scotia INNOVA Balanced Income	1.90%	1.75%	7.59%	3.95%	–	4.50%**
Scotia INNOVA Balanced Growth	2.37%	0.88%	8.63%	3.40%	–	3.72%**

* January, 2009

**January, 2010

The indicated rates of return are the historical annual compounded total returns as at September 30, 2012 including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. The rate of return shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the funds or returns on investment in the mutual funds. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Economic recovery remains in low gear.

A Look at the Markets

U.S. equities post strong third quarter.


Sunny with clouds

U.S. stocks were buoyed by European Central Bank's planned announcement to stabilize the sovereign debt market as well as consumer sector savings rates picking up, the housing sector appearing to have bottomed, and the University of Michigan Consumer Confidence Survey nearing a five-year high. The U.S. Federal Reserve intends to continue stimulating the economy, through mid-2015. Meanwhile, U.S. employment data, industrial production, manufacturing data, and leading economic indicators reflect tepid economic growth.

Index Performance
3-Months (as of September 30, 2012)

▲	4.1%	MSCI Emerging Markets Index
▲	3.1%	Global equities (MSCI World Index) .
▲	2.7%	U.S. market (S&P 500 Index)
▲	7.0%	Canadian equities (S&P/TSX Composite Index)

Source: Bloomberg

Canadian equities remain healthy.


Sunny with clouds

The Canadian equity market participated in the global rally, posting healthy gains in the quarter, thanks in large part to gold and energy stocks. Fears of slowing growth in China and other net purchasers of commodities, and a strengthening Canadian dollar, have kept a lid on enthusiasm for the Canadian market.

European Central Bank bond purchases help calm markets.


Cloudy

The European Central Bank's announced the unlimited purchase of euro-area bonds buoyed equity and bond markets. Spanish and the Italian 10-year bonds yields fell signaling a reduced fears of default. However, while yields have held steady, if doubt resurfaces, yields could test prior highs in short order.

Emerging markets continue to provide slowing economic growth.


Cloudy

China, the world's second largest economy, may struggle to achieve its revised forecast as exports to Europe continue to suffer, land disputes threaten trade with Japan and the country prepares for its once-per-decade leadership transfer. India is also facing slowing GDP growth in addition to persistently high inflation and political struggles. Despite numerous central bank interest rate cuts, Brazil is struggling to accelerate its economy. ■

Outlook provided by Scotia Asset Management L.P., portfolio advisor to Scotia INNOVA Portfolios.

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