Spotlight on Risk

When considering the big picture it's easy to take our eyes off of the horizon while we focus on what is right in front of us. It's equally possible to be so focused on the long term that we forget to live in the moment. Many of our decisions are predicated on our comfort with taking risks. It's important to remember that, when it comes to planning for the long term, risk is more than a four-letter word. In this issue of the Spotlight series, we look at some of the key risk factors long-term investors contend with and how they can be managed.

Time

"Time is the longest distance between two places."

– Tennessee Williams, *The Glass Menagerie*

When first charting a long-term plan, time is generally on our side and our goal can seem far off. It can be helpful to view that timeframe as a series of shorter check-points. As our circumstances change, it's essential to revisit the plan, keeping in mind factors such as changes in cashflow, time, and rate of return. Over the course of a lifetime, the ebb and flow of events like saving for a home, raising a family, downsizing, and drawing income from savings requires a dual view – one that's both immediate and long term. Your Scotiabank advisor can help you create a plan that manages both sides of your household balance sheet and helps you build your overall net worth.

Purchasing Power

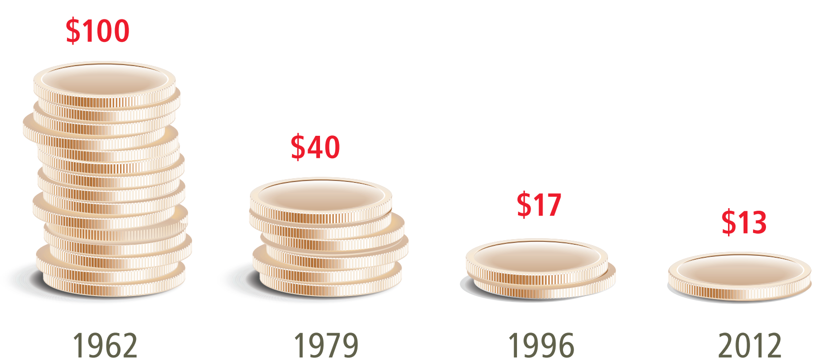
"Inflation is the crabgrass in your savings."

– Robert Orben

Do you remember when your grandmother used to say, "When I was your age, that only cost a dollar"? When saving for a long-term goal, we typically plan for the future while being very much rooted in the present. Often the dollar value assigned to our finish line is the cost of items today – and doesn't account for the impact that inflation can have on the purchasing power of our savings over time *(see Figure 1)*. Factoring in inflation is important and can easily be incorporated into the check points along the way. When altering the amount of saving as circumstances change, it's a good idea to have your advisor factor in the impact of inflation to ensure that the finish line is where you want it to be when you get there.

Figure 1

Purchasing Power of $100 after 50 Years*



*Source: Bloomberg. Core Canadian CPI from November 30, 1962 to November 30, 2012.

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Market Risk

"Security is mostly a superstition. It does not exist in nature, nor do the children of men as a whole experience it. Avoiding danger is no safer in the long run than outright exposure. Life is either a daring adventure, or nothing."

– Helen Keller

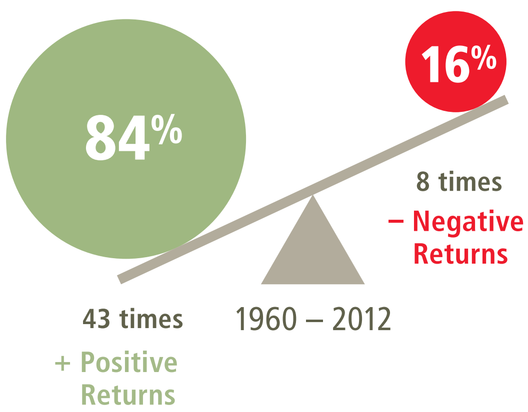
Typically, when people think about market risk, they are very focused on the day-to-day fluctuations in the market and their investments, with a heavy emphasis on recent activity. Market risk is an element that benefits from a long-term outlook.

Certainly for those viewing the equity markets with an eye to risk and volatility, there are many periods that demand attention: the great crashes of 1929 and 1987, the oil crisis in the 1970s, the implosion of the dot com sector in the early 2000s, and the financial crisis of 2008. These downturns have been a recurring, if infrequent, feature of the Canadian and international equity markets. And yet despite the occasional rough patches, when you look at the markets over the long-term, the number of positive years far outweigh the negative ones *(see Figure 2).*

Figure 2

Positive Years Outweigh Negative Ones†

3-Year Rate of Return of an All-Equity Portfolio



Longevity

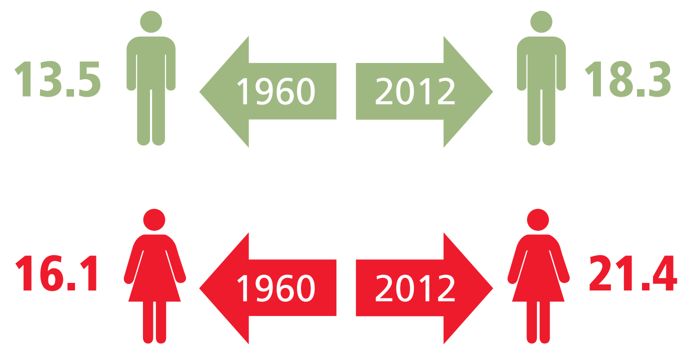
"Life's tragedy is that we get old too soon and wise too late."

– Benjamin Franklin

The average life expectancy of Canadians has jumped over the past half century – for men it moved from 66 in 1952 to 78 in 2009. For women, the jump was slightly larger – from 71 in 1952 to 84 in 2009. This increase in life expectancy also means that people are enjoying longer retirements. Assuming a retirement age of 65, women now spend, on average, 21.4 years in retirement and men spend 18.3 years.

Average years spent in retirement‡

(1960 vs. 2012)



The good news is that on average we can expect to lead longer, healthier and more fulfilling lives in retirement. The challenge to individuals and the government is funding the cost.

For most people, planning for their retirement feels intangible. We dream about our future not knowing how long our money needs to last or what a dollar will be worth when we get there.

Outliving your retirement savings is a very real risk, but one that can be managed with proper planning and the right balance of investments for each stage of your life.

† Based on 3-year returns ending December 31st of the S&P/TSX Composite Index TR from 1960 to 2012. Source: Morningstar Direct.
‡ Source: Life expectancy and health life expectancy at age 65, Organization for Economic Co-operation and Development, 2011.

While an aggressive investment strategy can be too much for many to stomach, an overly conservative approach can handicap growth potential. It can also increase the risk of falling short of goals or running out of money, especially after factoring in inflation. For most investors, the right balance lies somewhere in the middle.

A Scotiabank advisor can help you put the elements of time, purchasing power, market, and longevity risk into perspective by developing a plan that's right for you.

We know that no two investors are exactly alike. From saving for a family vacation to planning for retirement, **ScotiaFunds'** wide range of solutions considers the diversity of investors' needs and can help balance today's priorities with tomorrow's goals.

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