Inside INNOVA

Solid. Stable. Considered.

Winter 2016 | Issue 28 • Volume 7

Notable Financial Moments in 2015

From the ‘Grexit’ fears that dominated much of the first half of the year to the Fed’s historic rate decision, 2015 was an eventful year that saw no shortage of attention grabbing headlines.

‘Grexit’ fears resolved.

Most of the first half of 2015 focused on Greece’s economic plight and its ability to repay its debts, which at one point made Greece’s exit from the Eurozone (hence the term ‘Grexit’) a real possibility. This tango between Greece and the “Troika” (the International Monetary Fund, European Central Bank and European Commission) has continued since the European debt crisis of 2009. While Greece’s economic woes dominated headlines, its significance to the global economy remains minor, with a GDP on par with Miami’s at approximately $282.6 billion.

Technically speaking, a technical recession.

Canada entered into a technical recession during the second quarter of 2015 with two successive quarters of negative GDP growth. The decline was relatively minor and was concentrated in the energy sector while consumer spending remained strong. Continued pressure on the price of oil was most keenly felt in Alberta, but the rest of the country has remained somewhat resilient. Ultimately, the economy bounced back quickly in the third quarter.

A summer to remember.

As parents were scrambling for back-to-school deals for their kids, investors were faced with their own concerns following China’s devaluation of their currency, the yuan. Global equities, as a result, fell sharply in what was dubbed the most significant one-day decline since 2011’s Black Monday. Most markets rebounded within the week and into September, rewarding those who stayed invested.

New Canadian leadership.

On October 19, Canadians voted in a second generation of Trudeau’s, as Justin, son of the late Pierre Elliott Trudeau, became the 23rd Prime Minister of Canada. With his victory came a number of economic promises affecting Canadians, including more

Notable Financial Moments in 2015 *(continued)*

spending on infrastructure and investment, tax breaks for the middle class, and a reduction in the annual contribution limit of Tax-Free Savings Accounts (TFSAs) to $5,500, among others.

Fed forges its own path.

The U.S. Federal Reserve (Fed) raised the target for its key benchmark rate by 25 basis points in December 2015, from a range of 0% to 0.25% to a range of 0.25% to 0.5%. This historic decision marks the policy divergence between the U.S. and most other developed economies, which have either lowered rates or kept them steady. The last time the Fed raised its benchmark interest rate was in 2006 – followed by an unprecedented period of low interest rates that spurred one of the longest bull market cycles ever recorded.

While we don't know what the coming year will bring, it will likely throw us its own surprises that will continue to test investors' mettle – but sound investing principles remain unchanged. Stay tuned. ■

Looking Ahead

With the start of the new year and investment sights set forward, here are some themes that could play a key role in shaping 2016.

Loonie to remain weak

While the Canadian dollar has fallen significantly since September 2012, the pace of weakness is likely to slow in 2016. Commodity prices, one of the loonie's key drivers, appear to be oversold given sharp declines in recent months, and could be set for a rebound. However, the longer-term outlook still suggests persistent headwinds for the loonie. On a brighter note, a weaker dollar should provide a boost to Canadian manufacturers, exporters and the hospitality industry.

Global governments ready to spend to grow

Although reduced spending by the U.S. government in recent years has meaningfully weighed on GDP growth, it appears that this trend has come to an end. Growth in government spending has recently moved into positive territory and should be supportive of economic growth in 2016. It's expected that other regions will join the U.S. in loosening the fiscal purse strings, including Japan, the Eurozone, Australia and China. Canada appears set to follow suit, where our newly elected Prime Minister is expected to run larger deficits over the next two years to kick-start the Canadian economy.

With higher volatility, stock selection will be key

The relatively narrow spread between the cheapest and most expensive stocks within the market suggests that equity valuations are not a great differentiator at this stage in the economic cycle. With global economic headwinds and persistently sluggish earnings growth, the market may favour stocks that can deliver growth in spite of these challenges. Companies with unique growth opportunities that have reliably delivered on earnings expectations could find favour with investors in 2016.

Tighter corporate lending ahead

While weaker cash flow growth has already weighed on a number of sectors, including resources, media and health care, banks have begun to tighten lending standards for corporate loans. This has placed further pressure on companies – and the bonds they offer – within credit-reliant sectors. Given this outlook for a good portion of 2016, focus on higher-quality bonds would be a prudent approach.

While each year will have its own opportunities and challenges, it is important to stay focused on your long-term investment goals, and your Scotiabank advisor can help. They will work with you to ensure that your plan is aligned to your evolving needs and priorities, and help you remain on track towards achieving your financial goals. ■

The **Most Important** Thing...

We sat down with some of 1832 Asset Management L.P.'s portfolio managers to get their view on "the most important thing" they are watching in the markets.

"The demand for income will continue for a long time. Keep it simple – for long-term investors, blue-chip dividend stocks can do a lot of the heavy lifting for you. They offer tax-advantaged dividends and growth potential – and the resulting total return remains well above the risk free rate."

Jason Gibbs,
Vice-President & Portfolio Manager, Scotia Canadian Dividend Fund

"The one thing investors should have their eye on now is managing expectations. After six consecutive years of rising prices in global equity markets, near record-high valuations and record low interest rates, emphasizing risk-adjusted returns should be the priority."

Dana Love,
Vice-President & Portfolio Manager, Scotia Global Opportunities Fund

"The events I expect to have the greatest influence on fixed income markets will be the pace of any U.S. Federal Reserve tightening and the impact of energy price volatility on the Canadian economy. We believe the Canadian fixed income markets are fairly valued, assuming the economy continues to grow. Our base case is for Gross Domestic Product growth of 1 to 2%, which should result in modest returns for fixed income."

Romas Budd,
Vice-President & Portfolio Manager, Scotia Canadian Income Fund

Market Performance

(YTD returns as in CA$ at December 31, 2015)
Source: Bloomberg

▲ 3.5%	FTSE TMX Canada Universe Bond Index
▼ -8.3%	S&P/TSX Composite Index
▲ 20.7%	S&P 500 Index
▲ 18.8%	MSCI World Index
▲ 1.4%	MSCI Emerging Markets Index

Portfolio Performance (%) as at Dec 31, 2015

SCOTIA INNOVA PORTFOLIOS	3 Mth	6 Mth	1 Yr	3 Yr	5 Yr	Since Inception
Scotia INNOVA® Portfolios Series A						
Scotia INNOVA Income	1.27	0.48	1.87	4.37	4.31	5.74*
Scotia INNOVA Balanced Income	2.02	0.82	2.85	5.95	5.06	6.93*
Scotia INNOVA Balanced Growth	3.22	1.56	4.80	8.54	6.24	8.25*
Scotia INNOVA Growth	4.16	1.86	5.98	10.45	7.04	9.44*
Scotia INNOVA Maximum Growth	4.86	2.14	7.76	13.36	8.21	10.67*

Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed or insured by the Canada Deposit Insurance Corporation or any other government deposit insurer, their values change frequently and past performance may not be repeated. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns.

* January 2009

7 Financial Resolutions for 2016

1 Create a budget

Ninety-three percent of Canadians who have a budget, stick to it[1], helping them maintain financial stability. Start by looking at your after-tax income and listing all of your monthly expenses – including small items like daily coffee purchases. To make it simple, use the Scotiabank Money Finder Calculator to see where your money goes.

2 Pay yourself first

Pre-authorized contributions are a great way to consistently build savings over time. Just $200 per month, with an annualized return of 5%, will amount to more than $30,000 in 10 years[2]. As expenses drop off, or your income rises, you can increase your regular contributions to achieve your goals that much faster.

3 Max out your RRSP and TFSA

Consider maximizing the tax deferral and/or tax shelter benefits of an RRSP and TFSA by contributing up to your personal limits. You can find your RRSP limit by checking your 2014 Notice of Assessment. For your TFSA limit, contact the Canada Revenue Agency.

4 Consolidate accounts

If you have multiple accounts, you may be paying more fees than you need to. Consolidating your investments can simplify your financial life and help reduce the number of account fees and charges you pay. Larger account balances may also be eligible for reduced fees.

5 Establish a financial plan

Sometimes you need an expert – and seeking advice from a Financial Advisor is a good first step. They will work with you to create a plan tailored to your long-term goals and short-term priorities to help you keep on track. Here's another good reason to use a Financial Advisor: Canadian households that receive advice have roughly twice the median financial assets versus non-advised households, and grow wealth more significantly over time[3].

6 Formalize your estate plan

An estate plan is a cornerstone of a holistic financial plan. Your estate, how it will be transferred and documenting your plan will give you peace of mind that your wishes will be met and relieve the burden on your loved ones. For more information on estate planning, ask your Scotiabank Financial Advisor how Scotia Wealth Management can help.

7 Teach your kids about finances

Knowing how to manage money is an important life skill – so you should teach your kids how to save early on. If your kids are older and are the beneficiaries of your estate, it would be worthwhile introducing them to your trusted Scotiabank Financial Advisor. ■

[1]2014 Canadian Financial Capability Survey. Financial Consumer Agency of Canada. [2]For illustrative purposes only. Assumes monthly contributions, an annual compound rate of return of 5%, reinvestment of all income, and no transaction costs or taxes. The rate of return is hypothetical in nature and not indicative of any specific investment. [3]New Evidence on the Value of Financial Advice. Dr. Jon Cockerline, Ph. D. and the Investment Funds Institute of Canada. 2012.

Market Timing

Jason Gibbs, CFA
Vice President & Portfolio Manager
Scotia Canadian Dividend Fund,
found in all Scotia INNOVA Portfolios

One of the easiest ways to be unsuccessful at investing is to time the market. I've never seen anyone get it right, yet so many keep trying, potentially doing severe damage to their financial health.

If you tell me that the temperature will be sub-zero tomorrow, I'll tell you with confidence that water is likely to freeze. But if you say that you expect the stock market to be down tomorrow, I'll politely say you have no idea and neither do I.

One statement is based on the laws of science, while the other is based on trying to predict a random event, like a coin flip.

Take the S&P 500. When someone says they expect the S&P to be down next month, they are really predicting the future stock prices of 500 companies for the next four weeks. This is not even close to being possible. The problem is people actually listen to these predictions and some take action that often turns out to be incredibly wrong.

Look at the past few months. Stocks went through a very normal correction over the summer. There was some worry about China and interest rates. The S&P 500 was at about 2,100 points in July, and quickly sunk to 1,867 on August 25. If you were to read the press and watch TV, you would be watching so many of these experts warning about the next bear market having begun. Get out now and preserve your capital.

Well, there's a reason we talk about the "pain trade" with markets, because doesn't October turn out to be one of the best months in the past few years. Where did the S&P get to? You guessed it, back to about the 2,100 level. What did too many investors likely do? Again, you guessed it, sell in August and buy in October. You cannot do this and expect to be a good investor, simple as that.

Best-selling author Malcolm Gladwell put it well when interviewed by *The Globe & Mail* on November 6, 2015: "… Every prediction I've made about the future is wrong. And, by the way, every prediction that almost anyone I know has made about the future has turned out to be wrong. I don't think you can be a relatively self-aware person and not be deeply humbled by the human powers of prediction. We're always wrong."

When it comes to investing, spend your time focusing on what you can control, and where you have a comparative advantage. What is the value of this security, and is the current market giving me an opportunity to buy or sell it? Play defence, own simple companies that generate recurring cash flows and dividends from offering services and products that we use on a regular basis. It doesn't require a forecasting genius to know that humans will still be using electricity in the future and therefore a regulated monopoly utility stock should be a good stock to own.

And, for the good of your financial health, block out those who make grand predictions about where stock markets are going to be in the near future. ■

When it comes to investing, spend your time focusing on what you can control, and where you have a comparative advantage.

ScotiaFunds®

Banking & TECHNOLOGY

Scotiabank is currently undergoing a digital transformation to better serve customers and redefine banking for the digital age.

When Alexander Graham Bell invented the telephone, would he ever have imagined that it would someday become a mobile wallet?

In our fast paced and connected world, today's customers want to choose when, where and how they bank – increasingly that's online and through mobile banking.

Here are some of the latest digital innovations aimed at delivering a superior experience for the customer:

Mobile Wallet

With Scotiabank's Mobile Wallet, your smart phone just got smarter. Using one of the many eligible Android or Blackberry smartphones, you now have the freedom to simply tap your mobile phone at the checkout to pay for debit and credit card purchases. You can pay for small everyday purchases like, coffee, gas, lunch, groceries and more – safely and securely, without the need for your card, PIN or signature.

For more information about what smartphones are eligible for, or for general information about My Mobile Wallet, visit: www.scotiabank.com/mymobilewallet

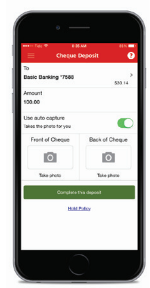
Wearables

Now there's an easier way to keep an eye on your bank balance through a smart watch such as Apple Watch, Samsung Gear 2 and Gear S, Pebble.

With Quick Balance available, on several wearable devices, you can view your balance anytime, anywhere simply by touching the screen and instantly viewing your real-time bank balance.

There's no need to log on or provide a password – just tap and view.

Mobile Cheque Deposit



Mobile Cheque Deposit, the most requested feature by Scotiabank's mobile customers, allows you to deposit your cheques, when, how, and from wherever you want simply by using the Mobile Banking app. Simply take a picture of the front and back of your cheque and you no longer have to go through a teller or self-deposit.

Scotiabank was named **the Best Consumer Digital Bank in North America** by Global Finance magazine.

To learn about all the ways you can bank with Scotiabank – whether it's online, using your mobile device, by telephone, at a bank machine, or in a branch, visit www.scotiabank.com/waystobank ■

2185-2015-1127 R9