Advice **Matters**

FALL 2016

Delivering Dignity

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Early in my career as a financial advisor, I saw first-hand the impact that good advice could have on Canadians and how it could provide them with greater freedom and choice at every stage of their life. Sadly, I saw the opposite too. Some were ill prepared as life progressed, and occasionally the results were devastating.

MONEY ISN'T EVERYTHING, but having the right financial resources and a sense of protection is critical to helping enable the choices that matter most in our lives. This is true regardless of whether you are a millennial just starting out, are Generation X and a bit more established, a baby boomer with greater responsibility or are well into retirement and fully enjoying life. Good advice gives you the ability to make the life choices that are right for you and your family.

At Scotiabank, we appreciate how closely the advice we offer and investment solutions we recommend are linked to your life and well-being – such as deciding whether you have the means to bring another life into this world or on the other end of the age spectrum, whether you can afford to stay independent for as long as possible in retirement.

"Money isn't everything, but having the right financial resources and a sense of protection is critical to helping enable the choices that matter most in our lives."

While advice matters, good advice matters even more. Helping you plan for a measure of wealth and income protection that is appropriate for your unique needs allows you to have greater freedom over your choices throughout your life. We believe there is great value in this. There is great dignity too.

I'm well into my career now and appreciate the value of good advice more than ever. My advice to you – take some time to speak to a Scotiabank® advisor. Get started on a personalized financial plan that is designed to keep pace with your life and help you achieve the goals that matter most to you. ■

SPOTLIGHT

Why diversify?

You may have heard about the importance of diversifying your investments – or not putting all your eggs in one basket – but you may not be entirely convinced.

We all have a friend or colleague who trades in and out of a few hot stocks and boasts about the impressive wins, but this article will explain why diversification is in fact the recommended approach to building and preserving wealth over time.

What's hot can quickly become what's not

Concentrating your investments in a few hot stocks or sectors, also known as 'swinging for the fences,' can be exhilarating. But is it sustainable over time? Historically, the winner in one year – the security, country, asset class or sector that outperformed its peers – is not often the winner the following year.

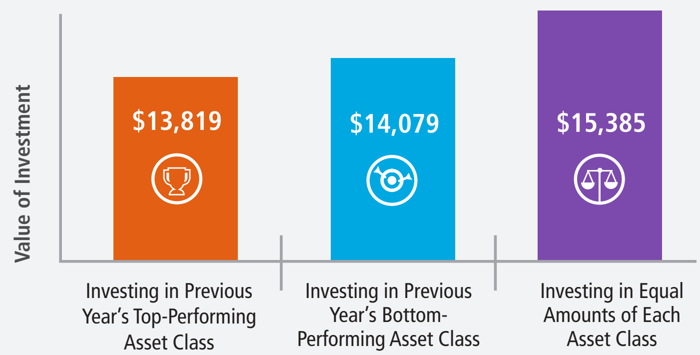
It is almost impossible to predict winners consistently, and when they invariably falter this can lead to a potential decline in your wealth over time. Diversifying your assets can be compared to hitting singles in baseball – you may not get the thrill of a home run, but there's the satisfaction of working your way to home one base at a time.

continued...

CHASING WINNERS CAN BE COSTLY

Over time, chasing performance can have a negative impact on the value of a long-term portfolio. This chart shows that consistently investing in the previous year's top performing asset class can have a significant drag on performance versus investing equally in each asset class.

$1,000 invested each year over a 10-year period



Source: Morningstar. For illustrative purposes only. Hypothetical investment value as of December 31 2015. Assumes reinvestment of all income and no transaction costs or taxes. Calculated in Canadian dollars. It is not possible to invest directly in an index.

PUT DIVERSIFICATION TO WORK

ASSET CLASS	INDEX
Canadian Small Cap	BMO Small Cap Index
U.S. Equities	S&P 500 Index
Canadian Equities	S&P/TSX Composite Total Return Index
Canadian Bonds	FTSE TMX Canada Universe Bond Index
International Equities	MSCI EAFE Index
Emerging Markets	MSCI Emerging Markets Free Index
U.S. Small Cap	Russell 2000 Index
Global Bonds	Barclays Global Aggregate Bond Index
Balanced Portfolio	40% FTSE TMX Canada Universe Bond Index, 30% S&P/TSX Composite Total Return Index, 30% MSCI World Index

Calendar year returns (in Canadian dollars)

%	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
HIGHEST	32.1%	18.6%	31.1%	75.1%	38.5%	9.7%	16.0%	48.1%	23.9%	21.6%
	26.4%	9.8%	6.4%	52.0%	20.2%	8.3%	15.3%	41.3%	14.4%	19.5%
	17.9%	3.7%	-16.1% Balanced Portfolio	35.1%	17.6%	4.6%	13.8%	31.6%	11.2% Balanced Portfolio	16.2%
	17.3%	2.3% Balanced Portfolio	-17.2%	15.9% Balanced Portfolio	13.0%	0.4% Balanced Portfolio	13.4%	13.3% Balanced Portfolio	10.6%	14.6%
	16.6%	2.0%	-21.2%	12.5%	10.1% Balanced Portfolio	-1.8%	7.9% Balanced Portfolio	13.0%	9.7%	11.1% Balanced Portfolio
	15.4%	-5.3%	-28.8%	8.0%	9.1%	-8.7%	7.2%	7.8%	8.8%	3.5%
	12.8% Balanced Portfolio	-7.2%	-33.0%	7.4%	6.7%	-9.6%	3.6%	4.3%	7.0%	2.4%
	6.2%	-10.5%	-41.4%	5.4%	2.6%	-14.2%	2.5%	3.9%	4.1%	-8.3%
LOWEST	4.1%	-16.5%	-46.6%	-9.2%	0.0%	-16.2%	2.0%	-1.2%	-0.1%	-13.8%

Source: Morningstar. Priced in Canadian currency, as at December 31, 2015. Assumes reinvestment of all income and no transaction costs or taxes. Annual returns compounded monthly. The asset classes are represented by their indicated indices and the balanced portfolio is hypothetical in nature. This information is for illustrative purposes only. It is not possible to invest directly in an index.

Why diversify? *—cont'd*

Did you know?

The industry standard metric for calculating risk-adjusted returns is known as the "Sharpe Ratio". This represents the average return earned in excess of the risk-free rate per unit of risk. Generally, the greater the value of the Sharpe ratio the more attractive the risk-adjusted return.

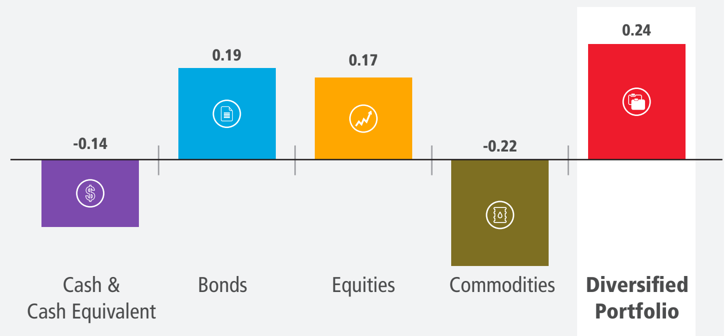
There are two sides to every coin

Return potential is clearly an important consideration when investing, but it's only one side of the coin. The other key consideration is risk potential. Ignoring it by solely focusing on returns would be like choosing to hang glide to work rather than take the bus – either way will get you to your destination, but one carries significantly more risk.

In order to effectively analyze returns between any two investments, you need to consider the underlying risk over time. You can do this by looking at returns on a risk-adjusted basis – the return a portfolio generates for each unit of risk it takes. Just like people performing similar functions can receive different pay based on the risks of their job. For example, a window cleaner washing windows at street level will generally earn much less than a window cleaner washing the windows of a skyscraper.

RISK-ADJUSTED RETURNS

10-year Annualized Sharpe Ratio



Source: Morningstar – For the period January 1, 2005 to December 31, 2015. Priced in Canadian currency, unless otherwise indicated. Assumes reinvestment of all income and no transaction costs, fees or taxes. This information is for illustrative purposes only and does not reflect the actual results, future returns or future value of a mutual fund or any other actual investment. Indices are not managed and it is not possible to invest directly in an index. The asset classes are represented by the following indices and the diversified portfolio is hypothetical in nature. Cash & Cash Equivalents: FTSE TMX Canada Treasury Bill 91 day Index. Bonds: FTSE TMX Canada Universe Bond Index. Equities: S&P/TSX Composite Total Return Index. Commodities: Bloomberg Commodity Total Return Index (USD). Diversified Portfolio: Cash, FTSE TMX Canada Treasury Bill 91 day Index – 10%; Bonds, FTSE TMX Canada Universe Bond Index – 30%; International Stocks, MSCI World ex USA Index (USD) – 20%; U.S. Stocks, S&P 500 Total Return Index (USD) – 20%; Canadian Stocks, S&P/TSX Composite Total Return Index – 20%.

The chart above illustrates returns on a risk-adjusted basis for various asset classes, including a hypothetical diversified portfolio. You'll notice that when compared on this even playing field, diversification can be a powerful tool over time.

It can help keep you on the straight and narrow

If you think about investing as you would your diet, diversification is similar to eating from all the food groups, providing your body with all the nutrients it needs to stay healthy. As your body changes over time, a different combination of nutrients may be needed to maintain optimal health. Likewise with investing, the asset mix that was originally created for an investor inevitably changes as a result of changing circumstances. Periodically rebalancing ensures that your risk and return objectives remain aligned.

One way to easily and effectively ensure you achieve and maintain an investment mix that is right for you is to consider Scotia Portfolio Solutions. Diversifying across asset classes, geography, investment approach and portfolio managers, Scotia Portfolio Solutions offer sophisticated investment management in the convenience of a single solution.

Some final thoughts

Diversification can seem counterintuitive and complex at times. However, a well diversified and properly rebalanced portfolio can help protect on the downside while potentially generating higher returns on a risk-adjusted basis. While that might not be a home run per se, over time it's been a proven winner. Talk to your Scotiabank® advisor to find a diversified portfolio that can help you meet your long-term financial goals. ■

[redacted]

COST OF LIVING

Higher education, higher cost.

Chances are your child will seek some form of post-secondary education – be it community college, university or an apprenticeship. This will come at a potentially staggering cost.

The cost of education in Canada is rising, and estimates suggest that the average tuition cost of a four year university degree in Canada will climb to $32,298 by 2022.[1] As the cost of education rises, Canadian parents are picking up some or all of the tab in greater numbers, with 77% of parents contributing to their child's tuition, and 79% paying for all or part of their living expenses.[2] For some parents, contributing to their child's education can mean dipping into their retirement savings, taking out a loan or getting a second job.

Registered Education Savings Plans, or RESPs, are a popular way to set aside some money for your child's or grandchild's education and allowing it to grow tax-deferred until you need it to pay for school. One of the easiest ways to use an RESP to grow an education fund is to take the government's money off the table, and put it to work for you.

The new Canada Child Benefit (CCB) is a tax-free monthly payment to eligible families with one or more children. Under the new CCB, the number of children you have, their ages, and your household income are all key factors in the payment you may receive. A household with one child and a family net income of $115,000 per year, for example, would receive $196 for a child under the age of 6 and $113 for a child between 6 and 17 years of age.

In addition, those eligible for the Canada Education Saving Grant (CESG) can receive 20% for every dollar of the first $2,500 contributed to an RESP each year. That means you can receive up to $500 in grant money each year. Using the same family net income of $115,000 per year, you could accumulate over $19,000 over the first six years if you invest the full CCB. Your education savings could grow to as much as $55,000 over the full 17 years.

While the potential cost of education may be daunting, your Scotiabank® advisor can help you plan and invest so saving for it doesn't have to be. ■

Did you know?

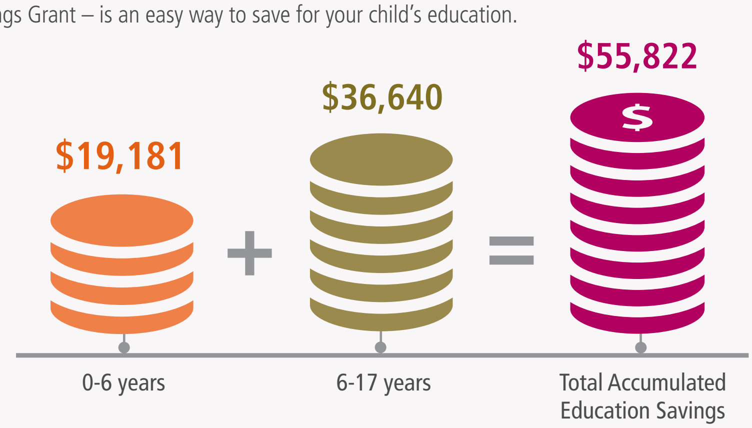
If you receive the maximum $500 CESG benefit for the year and have extra money to contribute, consider using a Tax-Free Savings Account (TFSA) for any additional education savings. Within a TFSA, your investments can grow, and be withdrawn, tax-free.

Speak to your Scotiabank advisor for more details.

[1]Statistics Canada, as of September 2015. Figure reflects tuition costs only and excludes living / compulsory costs. Assumes a 3.25% annual increase in the cost tuition.[2] The Canadian Alliance of Students Associations (CASA), August 2014.

A SIMPLE WAY TO SAVE A LOT[3]

Saving the Canada Child Benefit in an RESP – and collecting the Canada Education Savings Grant – is an easy way to save for your child's education.



[3] For illustrative purposes only. Assumes annual lump sum contributions at the end of the year, an annual compound rate of return of 5%, reinvestment of all income and gains, and no transaction costs or taxes. The rate of return is hypothetical in nature and not indicative of any specific investment. Contributions include annual investment of the Canada Child Benefit (CCB) and receipt of the Canada Education Savings Grant (CESG).

FINANCIAL PLANNING

Five ways to help combat money anxieties

Most Canadians, regardless of age or income, have felt anxiety over their money and finances at some point in their lives.

IN FACT, as many as 87% of Canadians wish they had made better financial decisions earlier in life, with the second most popular answer being they wished they had invested more, earlier or more wisely, according to the Financial Planning Standards Council†. The good news is that money worries can often be alleviated with some sound financial advice.

Here are five tips to help you combat money worries and approach your finances more calmly and confidently.

1 Don't put off what you can do today.

It is easy to ignore or put off thinking about things that can cause stress – such as money. Taking a proactive approach to your finances can be the first step to getting everything under control. A financial plan created with your advisor is an ideal first step.

2 Ask for help.

Being ashamed or embarrassed to ask for help is natural, but can make a bad situation worse. Sometimes financial problems can escalate not because of negligence but simply due to a lack of understanding. It's okay to ask for help and ensure you understand what options are available to you.

3 Involve the family.

Involving your family can help provide additional support and be a major source of stress relief. Not having to hide money problems is also a major factor in reducing money anxiety. An added benefit for you is taking steps early on to effectively transfer your wealth to the next generation, when it's time to do so.

4 Establish good habits.

Once a sound financial plan is in place aligned to your financial goals, the next step is finding the best way to achieve those goals. Investing on a regular basis through Pre-Authorized Contributions can build wealth easily and automatically.

5 Revisit, Review and Revise.

Even with a sound plan in place and good habits established, the work doesn't end there. It is important for you to keep revisiting the plan with your advisor to ensure it is still relevant, and revising if necessary.

Money worries can be a significant source of anxiety – alleviating them can reduce stress and help you focus your attention on achieving your goals.

† Source: Financial Planning Standards Council, *A Matter of Trust*, 2015

MARKET INSIGHTS

Quarterly Recap

Donald Trump elected U.S. President.
Defying the polls and overall expectations, Donald Trump was elected the 45th President of the United States. The Republican Party also kept majorities in both chambers of the U.S. Congress – the House and the Senate – establishing a more unified government than under Obama's Presidency. Financial markets were initially turbulent and overnight markets declined sharply as the surprising results unfolded. But losses were quickly trimmed, following a conciliatory speech by the President elect that focused on his pro-growth plans for the economy, including tax cuts and an increase in infrastructure and defense spending. Initial gains in the price of gold were also pared as the rush to safe haven investments subsided.

Canada signs Comprehensive Economic and Trade Agreement with Europe.
Prime Minister Justin Trudeau signed the Comprehensive Economic and Trade Agreement (CETA), a free-trade deal with the European Union that's been in the making since 2009. The agreement, requiring approval by all 28 EU nations, was derailed when the Belgian region of Wallonia voted against the deal. EU diplomats descended on the region to negotiate an arrangement and the Walloons subsequently came on board. The deal, which now needs to be ratified by the European and Canadian Parliaments before coming into full effect, will eliminate virtually all duties between Canada and the EU. It is expected to add an estimated $12 billion a year to Canada's economy and boost bilateral trade by 20%.

Chinese GDP growth on target, as construction booms.
The world's second-largest economy grew at 6.7% in the third quarter, meeting expectations and appearing to be on pace to meet its full year target. Growth was driven by strong government spending, record lending from banks and a sizzling property market. Some analysts voiced worries that debt and strong real estate prices could potentially cause a bubble, but others have noted that strong migration to urban centres should continue to support the housing market. ■

MARKET PERFORMANCE (YTD Returns in CA$ as at September 30, 2016) Source: Bloomberg

▲5.28%	▲15.83%	▲2.29%	▲0.61%	▲10.31%
FTSE TMX Canada Universe Bond Index	S&P/TSX Composite Index	S&P 500 Index	MSCI World Index	MSCI Emerging Markets Index

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