Advice **Matters**

SPRING 2017

Rethinking Risk

While a prescription for conservative investments may offer temporary relief of market volatility, the long-term side effects of this approach could stunt performance and derail your retirement goals.

Even as indices in Canada and abroad climb higher, a large number of long-term investors remain on the sidelines in conservative investments. Many still have Brexit and the U.S. election in their rear-view mirror. Yet while the markets have moved on, these same events continue to cast a shadow.

Typically, when investors think about risk, they become very focused on the day-to-day fluctuations in the markets and their investments, with a heavy emphasis on recent activity. Behavioural finance experts call this Recency Bias. It's the same occurrence that pushes sports fans to over emphasize an athlete or team's latest performance rather than their long-term track record. Or the poker player who doubles his bet on the faith of his last winning hand. The probability of a win or loss hasn't changed, but perception has.

Too Little Risk is Risky
The downside of letting actual or perceived market risk impact long-term planning is very real. An overly conservative approach to investing can limit your growth potential, and with that, increase the risk of falling short of your retirement goals or running out of money, especially after factoring in inflation.

Diversifying your portfolio to include a balance of conservative and growth-oriented investments has the potential to boost the value of your portfolio over the long run and combat longevity risk.

Any move to increase the return-potential of your portfolio comes with added risk, but one that can be managed with proper planning and the right balance of investments for each stage of your life.

Speak to a Scotiabank® advisor to ensure you have an appropriate mix of investments for all your goals. ■

Longevity risk

The average life expectancy of Canadians in retirement is 19 years for men and 22 years for women.[1] This increase in life expectancy means that people need to fund longer retirements.

[1] Government of Canada, Financial Consumer Agency of Canada, 2014.

According to a Scotiabank poll

65% **Top retirement concern**
Not having enough money to support one's retirement

Retirement priorities

33% Keeping healthy and maintaining a healthy lifestyle

31% Maintaining a comfortable lifestyle and meeting health needs

12% Travelling

All data from Scotiabank: Global Brand and Customer Insights, The Canadian Saving and Investing Mindset – "The Highlights", May 2016.

INFLATION

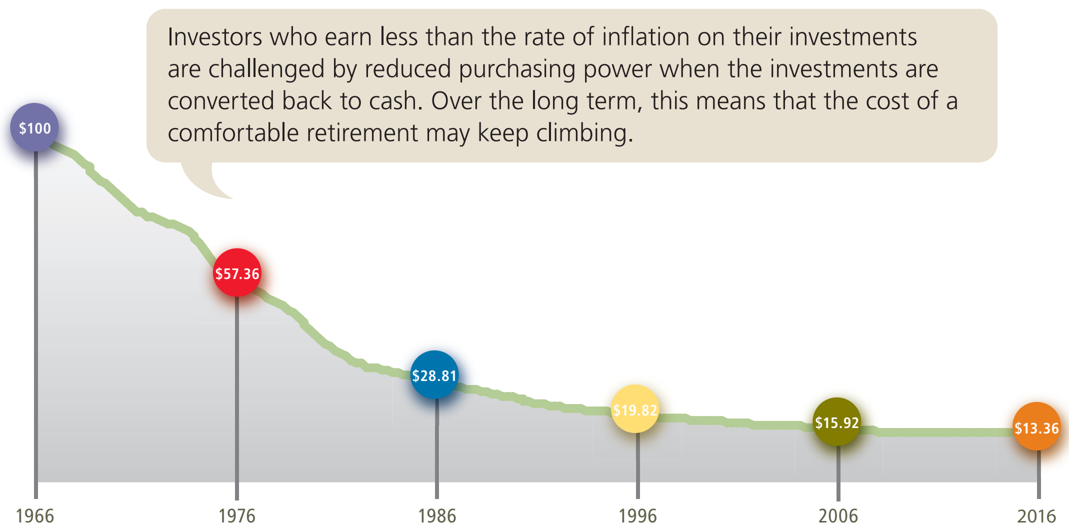
"When I was your age, that only cost a dollar"

The impact of Inflation on long-term saving

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 illustration to the right).

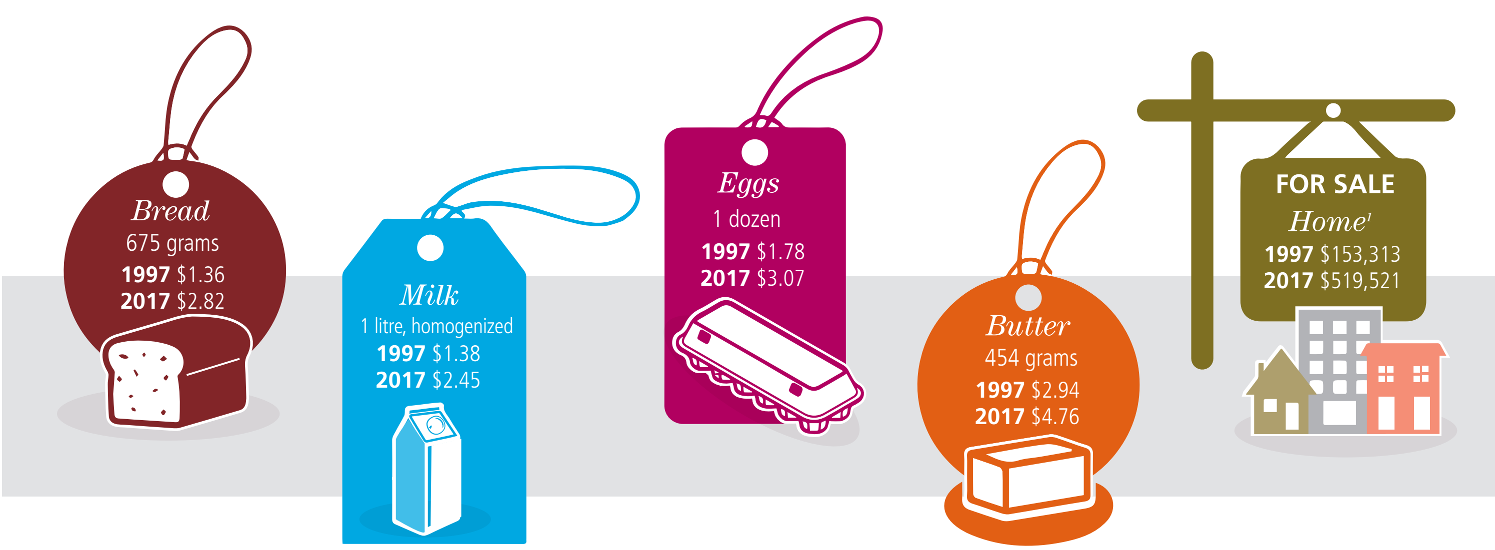
Factoring in inflation is important and can easily be incorporated into the check points along the way. When altering the amount of saving as circumstances change, it's a good idea to factor in the impact of inflation to ensure that you have the purchasing power to meet your needs, when you get to where you are going.

Purchasing Power of $100 (Cdn) after 50 Years



Source: Statistics Canada. Core Canadian CPI from December 31, 1966 to November 30, 2016.

Today's Costs Versus Yesterday



All data from Statistics Canada, Table 326-0012 – Average retail prices for food and other selected items, monthly (dollars), CANSIM (database). (Accessed March 2017), unless otherwise stated.
[1] Source: The Canadian Real Estate Association (CREA), Average Home Price for Canada, February 2017.

SPOTLIGHT

How to plan your financial future in your *Twenties*

Whether you're in your twenties or are a parent with a child in their twenties, we've put together some easy tips to help prepare you for the future and what it holds.

What you can start doing in your twenties:

The dos:

Pay off your student loans. Take the opportunity to repay any student loans to reduce your longer-term interest payments while giving you a leg-up on saving.

Start saving for retirement. You'll be surprised how quickly even small amounts can add up over time. Investing as little as $25 per week over a 40 year period could see your savings grow to $161,010.[1]

Start planning your future. There's no time like the present, or so the saying goes. When it comes to preparing for your financial future, start by simply writing down your goals, when you want to achieve each of them and one thing you can do to get you closer. Contact a Scotiabank® advisor who can help.

The don'ts:

Don't abuse it when it comes to credit. Establishing good credit is important, particularly if you expect to apply for a mortgage one day. Using a credit card and making payments in a timely fashion will keep your credit rating and debt levels in check.

Forego budgeting. Learning this good habit at an early age will make it easier to live within your means, and you'll thank yourself later in life for picking up a great habit.

Avoiding risk. When investing in your twenties, playing it overly safe can potentially decrease what you make over the long term. One thing you have on your side is time. Talk to your Scotiabank advisor about the right mix of investments for your goals.

Getting started in life

Many in their twenties find themselves in relationships, new jobs or just moving out from home for the first (or second) time. Some major milestones include getting married, thinking about a starter home, going to graduate school or getting a professional designation. Things to consider in your twenties:

Start saving for a down payment on a home. To avoid costly mortgage insurance, aim for a down payment of at least 20% of the purchase price.

Set up an emergency fund. Having enough money saved to see you through three to six months of expenses in case of a job loss or emergency.

Start a budget. You'd be surprised how much you learn about your spending habits when you write them down. Try creating a budget and follow through on it, while tweaking it as the situation warrants.

Determine your credit score. Good credit can make financing a car or a home much easier, and actions you take in your twenties will affect your overall score. Review your credit report and take action if necessary to get your score where you need it to be.

[1] For illustrative purposes only. The example uses a hypothetical rate of return of 5.0%, assumes reinvestment of all income, compounded annually and does not include transaction costs, fees, or taxes. The example does not reflect actual results or the returns or future value of an actual investment.

Your twenties come with a number of firsts. Make sure a good financial plan is one of them. Contact a Scotiabank advisor today, who can help create one that makes sense for you.

FINANCIAL PLANNING

Do you have a *financial advisor* in your corner?

We rely on professionals in many of the most important aspects of our lives, such as our health and education, appreciating that their expertise is critical to our success.

FINANCIAL ADVISORS can be counted among these professionals. In fact, they wear many hats, which when taken together can have a profound effect on helping you reach your financial goals.

Here are the key roles they can play:

Architect – It would be foolish to begin building a house without blueprints. Like a well-built home, getting your financial house in order requires a detailed plan as well.

A financial advisor can be instrumental in helping you develop a financial plan that will serve as the all-important foundation to prioritizing and reaching your goals. An advisor will draw up your financial profile, complete a full review of your financial goals and show you how to fund each of your goals with strategies and solutions that are designed with you in mind.

Teacher – Knowledge, as they say, is power. But the level of knowledge needed to make sound financial decisions is becoming more and more elusive. Financial markets have become increasingly complex and the investment options available today can be overwhelming, making it hard to know where to start.

A trusted financial advisor can provide needed insight on current events as well as long-standing investing principles and strategies. Financial advisors can also help you 'graduate' to new strategies and solutions as your needs change, including tax-advantaged options and cash flow options.

Counsellor – We are often our own worst enemy when it comes to investing, especially when we allow our hearts to rule our heads. Behavioural finance tells us, for instance, that investors typically feel financial losses about two and a half times more than a gain of the same magnitude.[1] This can lead some investors to panic sell at the least opportune time.

Financial advisors can help you identify and work through your concerns when market ups and downs inevitably hit and help prevent you from making rash decisions that could hinder your performance and your long-term goals.

[1] Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decisions Under Risk", Econometrica, 47, 2, pp. 263-91.

Coach – Anyone who has played on a sports team knows that their coach plays a key role in their success. Reaching your financial goals, particularly over the long term, requires someone in your corner – to spur you on or give you a gentle push when complacency or day-to-day distractions set in.

Good financial advisors play this role, celebrating your progress toward meeting your financial goals and pushing you when needed to remain on track to meet them.

Did you know?

It's been shown that advised households save at double the rates of non-advised households at 8.6% compared to 4.3%.

Source: The Value of Advice Report 2012 (IFIC).

While there are tasks in our lives that we can confidently "do it ourselves", there are others where a professional can be invaluable. Contact a Scotiabank® advisor today who can provide you with the knowledge, support and motivation that can help you reach your financial goals with confidence.

MARKET INSIGHTS

Quarterly Recap

Federal budget 2017

The Liberal government released their second budget in March titled *Building a Strong Middle Class*. Rumoured changes that the capital gains inclusion rate would be increased were not included.

Key details of the budget proposal include:

- A projection that the deficit is expected to increase from $23 billion for 2016-17 to $28.5 billion for 2017-18
- No significant tax changes, however there may be additional proposals throughout the year, depending on the implementation of any tax reforms from the U.S., for example
- A number of changes to personal tax credits were proposed, such as: discontinuing the public transit tax credit and simplifying the tax credits available to caregivers
- Employment Insurance benefits were expanded, including extending parental benefits to 18 months at a reduced benefit rate
- Proposed changes to limit some of the expenses eligible small oil and gas corporations can flow through to shareholders

The budget does not include any significant tax changes, but rather favours a "wait and see approach".

PM talks trade with U.S., Europe.

Canadian Prime Minister Justin Trudeau recently visited Washington for his first official meeting with U.S. President Donald Trump. In what was hailed as a major victory for Canada and brought much relief for Canadian businesses, Trump indicated that he was seeking to "tweak" Canada-U.S. trade policy, rather than completely rewrite it.

Trudeau also visited Europe to sign the Comprehensive Economic and Trade Agreement (CETA), a deal which has been in negotiations for eight years, calling it a "blueprint" for future trade agreements. The deal aims to remove 99% of tariffs on goods and services.

Britain triggers Article 50.

After almost a year since Britain voted to exit the European Union (EU), the formal process has now begun with British Prime Minister Theresa May's triggering of Article 50. The EU Council President has begun work on drafting the negotiation guidelines for the other 27 members. Negotiations on specific terms between Britain and the EU are expected to start in May and are expected to take two years to complete. ■

MARKET PERFORMANCE (YTD Returns in local currency as at March 31, 2017). Source: Bloomberg

FTSE TMX Canada Universe Bond Index	S&P/TSX Composite Index	S&P 500 Index	MSCI World Index	MSCI Emerging Markets Index
▲1.24%	▲2.41%	▲6.07%	▲6.53%	▲11.45%

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