

Your Money



Finder™

NEWSLETTER
VOL.3 • ISSUE 3 • SUMMER 2006

Rebalance your investments, even when your portfolio is thriving.

Smart investment strategies continue to emphasize asset allocation, diversification, and rebalancing, even during periods when your portfolio is performing well. These strategies are fundamental for any long-term investment program. They help prevent one asset class or sector from becoming over-weighted and putting your entire portfolio at risk if that over-weighted portion suddenly experiences a downturn.

Ian Filderman, Director of Mutual Funds for Scotiabank Wealth Management, reminds us: “We seem to forget the golden rule of investing when it comes to investments such as mutual funds. It’s just common sense to buy more of something at a lower price, and buy less when the price of that same thing is higher. We’re all doing this today with gasoline at the pumps, avoiding filling up at high prices and making a special stop to top up if the price has come down a few cents.”

“But we often do just the opposite with our investments. As prices go up for a section of our portfolio, we either buy more, or allow market growth to increase the proportion of that section of our portfolio, avoiding other investments as “underperformers.” What we know is that a program of regular rebalancing, that is, selling down some of the higher-priced (better performing) assets to buy lower priced ones is one of the most effective ways to stay on track for long term success.”

One of the easiest ways to keep your investments automatically rebalanced and regularly managed is to invest in one of today’s most dynamic new investment options - the lifecycle mutual fund. These mutual funds

feature built-in, ongoing asset management expertise you may have thought unavailable to the average investor.

Here’s how lifecycle funds work. You set a date, say for your retirement or other long-term investment goal. You and your advisor choose a diversified fund that suits your investment needs and risk profile and your lifecycle fund management team does the rest.

Your funds are:

- Professionally managed and monitored on an ongoing basis. The fund invests in a number of other mutual funds, each of which have skilled portfolio advisors applying their research, knowledge and investment discipline on an ongoing basis.
- Automatically adjusted and rebalanced throughout each stage in the life of your investment to become more conservative as your pre-selected date approaches, and to match the demands of the changing investment marketplace.

If you would like to benefit from the ultimate in long-term investment management, ask your Scotia advisor about our innovative new *Scotia Vision™* Funds or visit scotiabank.com/vision.

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Life. Money. Balance both.™

Life events can change your investment arrangements.

In the excitement that accompanies life's major events, such as marriage, home ownership, children, and so on, we often forget that such changes may require a new investment focus.

Your investment goals and profile may have changed. And as a result, you may need to shift the balance of your investments to a portfolio that is more suitable to your new situation in life. For example:

If you're getting married, you may have a new focus, which would combine the needs and investment profiles of both parties. Investment goals for each person should be reviewed and investing strategies developed to work toward united goals. In addition, you should work together to establish short-term and longer term savings goals, based on your joint plans for starting a family, home-buying and other lifestyle choices. There are scores of mutual funds with varying investment strategies and flexibility that can accommodate your respective investment profiles.

If you have young children, consider setting up an RESP, which is a registered account that you open to help fund your children's post-secondary education. To encourage RESPs, the government also contributes to your savings with a Canada Education Savings Grant, and allows it to grow tax-free as well, accelerating long-term growth. In addition, setting aside funds for an emergency is a practical way to prepare yourself and a growing family for unforeseen expenses. A pre-authorized contribution plan lets you save automatically and easily through direct contributions to your emergency fund.

If you're looking after elderly parents, any new care-giving dynamics may call for increased spending, which may include major renovations to your home, added travel expenses, extra costs of professional

and casual care-givers, and more. You may find that you need to create an emergency fund, or expand one. Together with your parents, you may also wish to understand their investments to make sure these too are capable of serving their changed circumstances. Consider laddering GICs, which can provide steady, predictable returns while making a portion accessible each year to reinvest and take advantage of potentially higher, long-term interest rates.

If you're getting ready to retire, you may need to review your investment portfolio to make sure that you still have a growth component to protect you against inflation. These days, with gas and fuel prices on the rise and health care costs continuing to climb, your fixed income investments may begin to fall short, if you have significant portions of your retirement savings in conservative investments like GICs. Consider additional investments with greater growth potential such as a balanced portfolio that includes equity mutual funds.

These are just a few of the major changes we experience over a lifetime. Discussions with your Scotia advisor can help you decide which investment strategies are best for you, no matter what stage of life you're in, or what changes you are experiencing.

Just a thought

"Every day you may make progress. Every step may be fruitful. Yet there will stretch out before you an ever-lengthening, ever-ascending, ever-improving path. You know you will never get to the end of the journey. But this, so far from discouraging, only adds to the joy and glory of the climb."

- Sir Winston Churchill

Love that cottage.

Three simple tips on how to make sure it stays in the family.

- 1** Few things can protect your intentions regarding your cottage or vacation home better than the instructions you provide in a legal will. If you don't have one, arrange to discuss the matter with your Scotia advisor. A will can give you the peace of mind you want.
- 2** In addition to an updated will, it is also helpful to discuss the subject and your intentions upfront with your children or those who hope to one day own your family cottage. This gives you an opportunity to discuss openly what will happen to the cottage when it is handed down to children or heirs, and it gives your family a chance to ask any questions they may have.
- 3** A life insurance plan can be used to pay the capital gains taxes owing on the property when it is transferred to the next generation. This prevents large capital gains taxes from forcing children to sell the cottage to cover the cost of the tax. A whole life insurance policy can provide a tax-free benefit for the estimated cost of the tax at the time the cottage moves to a new generation.



Stop in at your Scotiabank branch and ask to speak to a financial advisor who can provide you with further information on protecting your family's cottage or vacation home.

You're richer than you think.[®]

Scotiabank's way to help you find money you didn't know you had, or take advantage of financial opportunities you may not be aware of.

If you're thinking about retiring early, you may be considering "bridge" employment opportunities to phase you into full retirement.

In order to do this tax-effectively each year for those who exceed \$35,000 in income, and want to continue to provide for the 20 to 30 years of retirement you may have remaining, consider the following suggestions:

- 1** Currently the federal tax on earnings up to \$35,000 before allowances and deductions is 16%*. As soon as your taxable income exceeds \$35,000, your payable tax grows by almost another 40% by moving into the 22% tax bracket.

If any contributions / income above \$35,000 can be placed in your RSP, you will reduce your taxable income and continue to provide for the future. You can do so until December of the year you turn age 69, when you're required to begin using the RSP savings for income.

- 2** To maximize this short-term retirement savings, it pays to make sure that you are getting a reasonable return on this portion of your savings by putting it into a balanced mutual fund, which can provide more accelerated growth than, say, a GIC or other more conservative investment.

*Be mindful that there are still provincial income taxes to calculate as well.

Are your investments tax-efficient?

Tax planning and investment selection should be considered hand-in-hand these days.

The pre-tax rate of return for an investment can be attractive. It can also be deceptive. Although investment returns - in the form of interest income, dividends and capital gains - are all subject to tax, they're taxed differently. A better understanding of your tax obligations can help you defer and minimize the taxes you pay.

After-tax rates of return tell you what you get to keep.

The difference in after-tax value of an investment return will vary when treated as interest income, Canadian dividends or capital gains.

The lowest tax rates are paid on Canadian dividends and capital gains. Canadian dividends are eligible for a dividend tax credit. The federal budget of May 2, 2006 proposed to enhance the dividend tax credit on dividends paid after 2005 by Canadian public corporations*. If the proposed changes become law, this could further enhance tax effectiveness of Canadian dividends.

There are no dividend tax credits on foreign dividends, so these are currently taxed the same as interest. Capital gains taxes are only paid when you sell your investment holdings and secure a profit or gain.

You'll find the highest tax rates on foreign investments and those earning interest returns, such as GICs, and bonds. Knowing how the different investment tax applications work can make you a better investor in two ways. It helps you:

- 1 Choose an investment mix that is right for you, and take advantage of a wide variety of investments that maximize your after-tax investment returns.

- 2 Decide which investments you should put into your RSP, and which you should put into a non-registered plan.

An RSP should always be your first choice for investments, but...

If you have maximized your RSP contributions and you have no unused RSP contribution room from previous years, you may want to put the additional money you have to invest where it will be most tax-efficient. It is often best to:

- 1 Hold the investments that attract the highest tax rates inside an RSP because the tax is deferred until a time when your income tax rate may be lower; and to
- 2 Hold those investments that attract the lowest tax rate (Canadian stocks and mutual funds paying dividends and investments subject to capital gains) outside your RSP.

Before you invest or you rearrange your investments for the purposes of tax-efficiency, consult with your Scotia advisor to be sure you understand the tax consequences and the ultimate after-tax result.

*Taxtips.ca - Canadian Tax and Financial Information - Federal Budget 2006

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