Dedicated to helping you get ahead financially

Your Money Finder™

NEWSLETTER
VOL.3 • ISSUE 4 • FALL 2006

Does your investment portfolio need a Second Opinion?

The world of investing continues to grow more complex with an ever-increasing number of investment choices and strategies. So it is not unusual these days for you to wonder if the investments you are currently holding really are the right ones for you.

If you're interested in getting an assessment of how suitable your present investment portfolio is for your financial goals and needs, ask us for a professional investment analysis. We call it The Second Opinion from Scotiabank. And it's easy to do.

There are several good reasons why a second opinion can help you set your investments on the right track:

- You may not be adequately diversified. Given the constantly changing dynamics of financial markets, you may need to diversify further to help reduce risk.
- Your portfolio may need rebalancing. Even when investments are doing well, rebalancing can protect your portfolio from becoming over-weighted in a particular area and creating risk if that area experiences lower returns.
- You may be holding investments that are inappropriate for the type of investor profile you have.
- Your current investments may not be aligned with your expectations (for long-term growth for example).
- There may have been major changes in your life, such as marriage or the purchase of a home that may call for changes in your investment strategies.
- You may be holding multiple portfolios whose goals and strategies are not in sync with one another.

Regardless of how you arrived at your present investment choices, you will discover that a periodic review can be a valuable step in ensuring that you're invested in what's right for you. If you think your portfolio can use an objective review, ask for a Second Opinion from your accredited Scotia advisor.

How Scotiabank helped Ron and Alice

Ron and Alice asked their Scotia advisor Pam for a Second Opinion on their investments. They provided her with copies of their investment statements so that she could complete an accurate assessment of their investments. Pam assessed Ron's and Alice's risk profile and found that Ron was in mutual funds that were too conservative for his long-term goals. Alice, on the other hand, needed to diversify her portfolio into a broader mix of equities and fixed-income investments. The result: a Second Opinion from Scotiabank that gave Ron and Alice confidence that the slight modifications made to their investments were right for them.

Scotiabank Group™

Interest rate changes. What do they mean to your investments?

For borrowers, changes in interest rates are always of major concern. But periods during which interest rates keep changing can also have significance for investors and their portfolios.

First, interest rate changes – going up or down -- raise the question, "How do these changes affect income-generating investments, such as bonds and fixed-income mutual funds?"

Over the last three years, average market interest rates have remained in roughly the 3.8% to 4.8% range (measured by the Scotia Capital Universe Overall Bond Index). When Central Banks are concerned about inflation, interest rates are usually pushed up to help contain further price increases. When demand for money is high as a result of a strong economy, the cost of borrowing money (the interest rate) often goes up accordingly, until consumer spending is moderated.

But do interest rate increases mean that you should be moving investment funds into interest-bearing investments?

Returns[†] for interest-bearing bonds[*] have averaged about 6% annually over the last three years, while equities[**] over the same period returned an average of about 20% annually. In today's environment, equities are an essential part of any long-term investment portfolio.

Every portfolio needs diversification to protect it from unexpected market swings. Bonds and other fixed-income investments will provide a safety measure to help reduce performance volatility in your portfolio. It is also important to have interest-bearing investments, with their less volatile returns, especially if you have short-term financial needs.

Second, interest rates appear to be leveling off, particularly in the U.S., where the economy is slowing and the U.S. Federal Reserve (Central Bank) has for the first time in 2 years recently refrained from further interest rate increases.

This is usually a signal that short-term interest rates in North America as a whole will begin to stabilize, and within 6-7 months start to come down. Historically, U.S. interest rate stability plays a role in stabilizing Canadian interest rates as well.

If you are looking for investment income and diversification, now is a good time to speak to your Scotia advisor about the best way to do this, according to your investment goals and profile.

† Returns for TSX and SC Bond Index are before fees and assume re-investment of dividends and interest.
* Measured by the Scotia Capital Universe Bond Index.
** Measured by the TSX over the same period to the end of July 2006.

Just a thought

Today, retirement can last 30 years or more. With inflation rates as low as they have been recently, it's easy to forget the dangers of inflation over long periods. For example, over 10 years a 3% inflation rate can sap your spending power by almost one third. That means $100 today will purchase only about $67 worth of goods and services in 10 years. When you're considering what type of investments to own, make sure you have considered the need for investment growth to keep pace with inflation.

Some important year-end financial reminders

Here's a short list of financial matters to remember before the new year arrives:

1. If you have a Registered Education Savings Plan (RESP) for the purpose of funding post-secondary studies for your children, remember to make your contributions by December 31 to take advantage of the Canada Education Savings Grant.

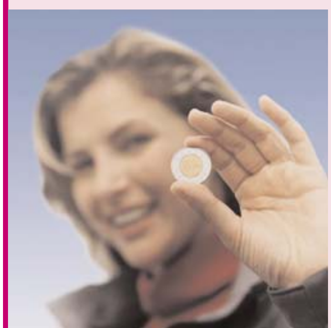
2. If you wish to make a donation to a qualified charitable organization and be eligible for a tax deduction for this year, remember that your donation must be made by year-end, and you should obtain a valid receipt or written acknowledgement for your donation.

3. If you are 69 years of age, the year-end is your deadline for converting your RSP to a RIF. If you fail to do this, your plan will become de-registered and the proceeds will be paid out as lump sum cash to you and fully taxed as income. At Scotiabank, if we have not received any payment instructions by December 31, your RIF plan will be set up automatically and the annual minimum payment will be sent to you by cheque on September 25 of each year.

We encourage you to meet with your Scotia advisor well in advance of your 69th birthday in order to plan a strategy for the conversion of your RSP to a RIF.

You're richer than you think.®

Selling investments at a loss can offset capital gains.



If you are selling part of your non-registered or taxable mutual fund holdings when they've increased in value, you may trigger a taxable capital gain. To help you offset capital gains tax, remember that you can sell an investment at a loss (when you believe it may not be able to recover or you wish to move the investments elsewhere). You can then apply this loss against any capital gains you may have realized in 2006, during the previous three years or in the future (capital loss may be disallowed if you repurchase the same investment within 30 days).

Always speak with your Scotia advisor before you make any decisions to sell your holdings, whether to take a profit or to establish a loss for tax purposes.

Tips on making the switch from RSPs to RIFs or annuities

At age 69, whether you are retiring or not, it becomes necessary to convert your RSP savings to a Retirement Income Fund (RIF) or an annuity that allows you to start receiving payments.

To help you or your family members make the best decision, here's a brief summary of what you should know about each method:

RIFs

A Retirement Income Fund (RIF) is like an RSP in that your investments are allowed to grow tax-deferred. A RIF makes it possible for you to start receiving income from your retirement savings, while still keeping your savings registered. According to current Canadian tax laws, there is a minimum amount you must withdraw every year after December 31 of the year you opened your RIF.

The annual minimum withdrawal is calculated as a percentage at the beginning of each year and is based on your age and the value of your RIF at the end of the previous year.

Provided that you withdraw at least the required minimum each year, you may choose any payment amount and frequency.

RIF withdrawals will be taxed as income. You can reduce your taxes on your RIF withdrawals by following these simple tips.

- Withdraw only the minimum amount required and have the minimum amount paid to you once a year in December. In this way, your savings remain in your account longer and continue to grow tax-deferred. (In addition to annual withdrawals, you can choose to receive payments monthly, quarterly and semi-annually.)
- Should you need supplemental income, use your non-registered savings first, since you have already paid your taxes on this money.
- If you wish to lower the RIF minimum you are required to receive, you may use your spouse's age, if they are younger when fixing the amount of the total annual payment you are required to receive, as long as you make this choice before any payment is made.

Annuities

If you're looking for guaranteed income with no further investment decisions, you may want to put some or all of your retirement savings into an annuity. You can purchase an annuity that pays you or you and your surviving spouse a specific amount for a fixed term or until you reach a certain age.

You can also purchase an annuity that will give you a guaranteed fixed income for the rest of your life. Remember that with an annuity, once you select a plan, you don't have the flexibility to switch from one investment type to another, the way you do with your RIF.

You may find that some combination of RIF and annuity is right for you. Before you make that decision, speak to your Scotia advisor about what retirement plan will be best for your needs.

9040315 (10/06)