Your Money Finder™

NEWSLETTER
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Too many mutual funds to choose from?

The wide range of investment choices may seem daunting — but it doesn't have to be.

Investors today have access to a truly dizzying array of choices. From familiar standbys like GICs and Canada Savings Bonds, the list of possibilities extends to stocks, bonds, mutual funds, and much more.

Mutual funds remain one of the most popular ways for Canadians to invest for their goals. They offer professional management as well as diversification. In addition, it's easy to make small purchases, and your mutual fund earnings are generally reinvested in additional fund units. These last features make mutual funds ideal for Retirement Savings Plan (RSP) contributions.

But even among mutual funds the selection is staggering — with thousands to choose from. How do you know which to choose? And even more importantly, how can you combine them into an effective portfolio designed to help you reach your goals?

Getting the right mix

Reviewing your asset allocation — the mix of cash equivalent, fixed income, and equity funds in your portfolio — is the best place to start.

Most experts agree that having the right asset allocation is the key to achieving long-term investment goals. For example, if your goal is in the future, such as retirement, holding a higher proportion of equity funds will allow you to benefit from higher potential long-term returns.

After you've reviewed your asset allocation, you can select specific mutual funds within each asset class. You'll want to choose funds with objectives and risk levels that are in line with your own.

"Fund of funds"

If you're like most Canadians, you may not have the time or inclination to create your own portfolio.

In that case, you may be more comfortable with a "fund of funds" mutual fund. These mutual funds are professionally managed portfolios that hold a diversified selection of other mutual funds.

You benefit from professional management, diversification and, a portfolio that is monitored and rebalanced on a regular basis — all in one convenient investment.

There are "fund of funds" to meet the needs of almost every investor profile, from very conservative to aggressive growth (see page 2).

If you are looking for a convenient, professionally managed solution this RSP season, or would like to get a second opinion on your asset allocation, speak to your Scotia advisor.

Scotiabank Group™

Is a "fund of funds" solution right for you?

With a "fund of funds", you can invest in a diversified portfolio of mutual funds with just one decision. All our "fund of funds" feature professional management, monitoring, and rebalancing.

- *Scotia Selected*® Funds are a diverse selection of funds managed by some of the world's best portfolio advisors. Choose from one of four portfolios, each designed to meet the needs of different investor profiles.
- *Scotia Vision*™ Funds are "target-date" funds, which means you choose the fund with a target date that most closely matches your investment time horizon.
  They are a good choice if you have a specific goal and target date in mind, such as retirement or your child's education.
- *Scotia Partners Portfolios*® includes mutual funds from up to seven of Canada's leading fund companies.

Is your RSP stuck in neutral?

Avoiding these four common mistakes can help rev up your retirement strategy

The most effective way to save for retirement is deceptively simple: make a plan and stick to it. Unfortunately, even the best-laid plans can go awry. And often, one of the following errors is responsible.

1 Being too conservative

Naturally, you want to keep your RSP safe. But "safe" isn't the same as "risk-free."

In fact, if you're holding nothing but cash or GICs that pay a guaranteed return, there's a good chance that your portfolio won't provide the returns you need to stay ahead of inflation.

One of the best ways to reach your goals is to have a diversified portfolio that includes equity mutual funds and/or index-linked GICs, to offset the effects of inflation over the long term.

2 Focusing on the short term

When there's a market downturn, nervous investors sometimes react emotionally and sell off some of their investments. And then, when the market recovers, they may find that it will cost them a whole lot more to get back in.

The lesson? Don't let short-term market volatility tempt you into altering a portfolio that's designed to help you reach your long-term goals.

3 Forgetting to "unpark" contributions

A lot of people wait until the RSP "deadline" to make a contribution for the previous year. Because they're in a hurry, these investors typically "park" their contribution in a cash account or cash-equivalent mutual fund, planning to move it later.

Unfortunately, "later" never arrives, and their contribution generates minimal returns instead of helping their RSP reach its true growth potential.

4 Waiting until the deadline to contribute

This year, a lot of people will scramble to get their contribution for 2006 in by March 1, 2007. But the truth is, they have missed out on 14 months of tax-deferred compound growth.

A far more effective approach is to have pre-authorized contributions taken from your bank account every month. Many find that it's a lot easier to set aside a small amount monthly than to come up with a large lump sum once a year. Even better, your contributions will begin working for you the moment you invest them.

If you find yourself making any of these common mistakes, contact your Scotia advisor. They'll help you take a fresh look at your investments and get back on track.

Tax tips for filing your 2006 return

Make sure you're not missing out on these changes which were introduced in the 2006 Federal Budget.

As you file your personal income tax return for 2006 (or prepare your records for your tax advisor), keep in mind the following changes — which could mean lower taxes for you.

Public Transit. Individuals can offset the cost of public transit passes by taking advantage of a non-refundable tax credit. For the 2006 tax year, the credit can be claimed for amounts paid beginning July 1, 2006. Remember to keep your receipts.

Pension Income. The maximum amount of eligible pension income that can be used in calculating the pension income credit has gone up to $2,000 from $1,000.

Employment Credit. Effective July 1, 2006, the new Canada Employment Credit will provide relief on the first $250 of employment income, in recognition of expenses incurred by employees. Starting in 2007, the employment income threshold will increase to $1,000.

Textbooks for Students. Post-secondary students can claim a tax credit for the cost of textbooks.

For more information about these new measures, visit the Canada Revenue Agency's website at www.cra-arc.gc.ca. For advice regarding your specific circumstance, it's always advisable to speak with a professional tax specialist.

How Scotia helped Jim

A path to better diversification

Like many investors, Jim opened his first RSP where he banked and, along the way, opened another plan with a different bank. He assumed that the more plans and funds he had, the more diversified his investments would be.

Jim visited his Scotia advisor, Jen, to get a second opinion on his investments. Jen used one of Scotia's investments analysis tools to examine Jim's complete holdings. It turned out that some of the mutual funds in Jim's RSPs held similar investments. This made his portfolio less, not more, diversified. Jen then helped Jim restructure his portfolio to both enhance diversification and achieve his goals.

† The *Market Powered* GIC is non-redeemable. Guaranteed principal and additional interest, if any, will be paid on the maturity date. Accrued guaranteed annual interest will also be paid on maturity or, where applicable, annually. Changes to the *Scotia Market Powered*™ index will affect the amount of the additional interest payable. Potential additional interest is restricted by the participation rate and the average of the index values at the relevant observation points. For more information on this GIC, the index, interest calculations and payments, please visit any Scotiabank branch in Canada or go to www.scotiabank.com/marketpoweredgic.

You're richer than you think.®

Benefit from the power of the stock market and a guaranteed return.

Are you looking to take advantage of the growth potential of the stock market and enjoy the peace of mind of a guaranteed return?

Scotiabank's five year term *Market Powered*™ GIC may be the investment solution you're looking for. As with a traditional GIC, your principal is guaranteed for the full five-year term. You also receive a guaranteed annual interest rate on your principal. Plus you gain the potential to earn additional income, based on the performance of Canada's financial services and utilities sectors.

The *Market Powered* GIC is fully RSP-eligible and can be purchased with a minimum investment of $1,000. **Speak to your Scotia advisor today about whether the *Market Powered* GIC is right for you**†.

Essential RSP Questions – Answered

Every year, the approaching Retirement Savings Plan (RSP) deadline brings a flurry of questions. Here are some responses to the ones that crop up most frequently.

Q Is it better to contribute to my RSP or to pay down my mortgage?

A There's really no single answer to the RSP vs. mortgage question. Both goals are important and provide valuable benefits.

Contribute to your RSP (up to your allowable limit) by March 1, 2007, and you'll get a tax deduction for your 2006 tax return. More importantly, however, is the long-term growth potential of your contribution. For example, a $5,000 contribution earning 7% compounded annually will be worth more than $27,000 in 25 years.

The benefit to paying down your mortgage? You reduce your overall interest cost and own your home debt-free, sooner.

The answer that's right for you will depend on a number of variables — your marginal tax rate, the interest rate on your mortgage, how close you are to retirement, how many years are left on your amortization schedule, and the average rate of return in your RSP.

One strategy that's appropriate for many people is to do both. That is, contribute to your RSP and then use the resulting tax refund to pay down your mortgage.

Q I don't have enough cash on hand to contribute. Should I borrow?

A In many situations, borrowing to contribute can be a good strategy. RSP loans usually have some of the lowest rates available, and often the first repayment isn't due for 120 days. That gives you enough time to make your contribution, claim it on your 2006 tax return, and get a refund — which you can use to pay down the loan.

Q Why do I keep hearing that certain investments should be held outside my RSP?

A The reason you've heard that some investments are better outside registered plans has to do with the way investment income is taxed.

Outside your RSP, interest income is taxable at your marginal tax rate, while dividends from Canadian corporations and capital gains are taxed more favourably. Inside your RSP, your earnings grow on a tax-deferred basis. When you begin to draw from your RSP in the future, your withdrawals are fully taxed at your marginal rate. However, in retirement, your earnings (and tax rate) are usually lower.

So where you have both registered and non-registered accounts, it's more tax-efficient to hold assets that generate interest in your RSP and assets that generate capital gains and Canadian dividends outside your plan.

Although tax considerations are important, they should not be the sole consideration when making your investment choices. Talk to your advisor about what's right for you.

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