Scotiabank
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Dedicated to helping you get ahead financially.
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Invest for your future, because no one else will

Investing isn't about having more money today. It's about the future, the "one day". Sometimes "one day" can feel awfully far away. That's why at Scotiabank, we have introduced a new way to think about investing for your future by making the next 5 years count with your 5 year plan. It's what you do today that really counts. So take control of your financial future. After all, if you don't, who will?

Make the next 5 years count

Your financial planning process begins by defining your goals – for example, a comfortable retirement or a child's education. Your Scotia advisor will work with you to select the products and solutions that match your unique needs at your stage of life and tolerance for risk. And your advisor will continually assess your portfolio and life situation over time as your needs and circumstances evolve.

Every stage of life presents financial opportunities and challenges. For example, after college or university, most people start their first job and move into their first apartment. At this stage, cash inflow is meagre while cash outflow is usually substantial. But, time is on your side. Working with your advisor on a 5 year plan can put you on the right track early to maximize growth potential over the long run. Growth-oriented mutual funds may be a good fit.

In mid-life, capital spending and financial obligations are high, as many people buy homes and raise families. But income also rises. At this stage, people tend to become more serious about investing. A 5 year plan can identify the best strategies for meeting your short, medium and long term goals, whether a high-interest savings account for emergency savings, a Tax Free Savings Account with GIC's for medium -term needs, or mutual funds for longer term goals like retirement.

As the years pass, your mortgage may be paid off or close to being paid off. As other financial responsibilities are met, such as childrens' education, money should increasingly be put aside for retirement purposes into RRSP's. Your asset allocation might shift from risky to reasonably conservative, with speculation taking a back seat.

As you approach retirement, you have an ideal opportunity to add to your nest egg as earnings should be near their peak and capital expenditures low. Your 5 year plan will focus on topping up your RRSP's and other financial plans. Investments should be increasingly conservative. It is also important to remember at this stage that estate planning for the distribution of wealth to loved ones should be planned.

Wherever you are on the road of life, make the most of the next 5 years. Speak to your Scotia advisor today about creating your 5 year plan. Let the Saving Begin.

RRSP or TFSA: Which should you choose? Both!

TFSAs and RRSPs have one major thing in common: they allow your money to grow tax-free. But while an RRSP contribution may generate a tax refund, a TFSA contribution does not. And while RRSP (or RRIF) withdrawals are taxed, TFSA withdrawals are not. It helps to think of a TFSA as "taxed-in[1], tax-free out" and an RRSP as "tax-free in, taxed out."

So which is better? That depends. Since it typically offers much higher contribution room, an RRSP is the vehicle of choice for larger, long-term goals, such as retirement savings. An RRSP may be more tax-efficient than a TFSA if you're saving for retirement and the medium-term but, withdrawals are subject to withholding tax. A TFSA, on the other hand, is more convenient and ideal for short goals such as a vacation and emergency funds given the fact that it is more liquid depending on the investments chosen. But be mindful that TFSA's have strict contribution limits, so make sure you pay attention to how much you contribute so as not to be penalized.

Since everyone has short, mid and long-term goals, most people will do best to maximize their investments in both TFSAs and RRSPs.

Investment Strategies

RRSP versus TFSA . . . why choose? Here are some strategies that give you the best of both worlds.

1 Invest your refund

Consider contributing to your RRSP, then invest any tax refund in your TFSA. Better yet, why wait for a potential annual tax refund? If you make regular RRSP contributions through a pre-authorized contribution plan, you can ask your employer to immediately reduce the tax deducted from your paycheques (just fill out a "T1213" request form)[2]. A $100 RRSP contribution could add an extra $40 to your paycheque (assuming a 40% tax bracket), which you can invest in your TFSA.

2 Boost your income

In retirement, you can use your TFSA to supplement your RRSP/RRIF income by loading up your TFSA with strong dividend paying stocks or corporate bonds. Then, you can withdraw the income tax-free.

3 Withdraw wisely

While your RRIF is most tax efficient for smaller, regular withdrawals, use your TFSA for lump sum purchases, such as a new car, world tour or vacation property. In this way, you avoid drawing down additional tax-deferred funds. It is important to remember that withdrawals from a RRIF are considered income for tax purposes and they are subject to withholding tax. As an example in order to get $42,000 in income from a RRIF you would need to withdraw $60,000 as there is a 30% withholding tax applied to the withdrawal. Versus a TFSA where in order to get $42,000 in income you only need to withdraw $42,000 from the TFSA.

Talk to your Scotiabank advisor about how TFSAs and RRSPs can be used together to reach your financial goals.

[1] Contributions are from after-tax savings.
[2] T1213 form – Request to Reduce Tax Deduction at Source must be approved by the CRA and may take between 4-8 weeks to approve before your employer can reduce tax.

Market trends

The Economy:

- Emerging market economies are currently the strongest contributors to global GDP growth, with North America, Europe and Japan adding more tepid results.
- The Canadian economy continues to hold up well relative to the U.S., where consumers are challenged by higher levels of unemployment and household liabilities.
- Moderate economic growth married to modest inflation pressures appears to be the course for the Canadian economy for the foreseeable future, although ongoing weakness in the U.S. has the potential to restrain near-term growth.

Fixed Income:

- The Bank of Canada is expected to resume its trend of raising short-term interest rates to a less stimulative level as soon as the U.S. economy shows signs of meaningful growth. Longer-term interest rates may move higher at a slower pace than short-term rates as inflation concerns remain muted.
- Given the relatively weak recovery in the U.S., fears of deflation (a decline in the general price level of goods and services) have risen.
- The U.S. Federal Reserve has indicated their intention to buy additional U.S. Treasury bonds as means to increasing liquidity in the banking system (quantitative easing). The desired impact of quantitative easing is to drive bond yields lower, resulting in a general reduction in the cost of borrowing. As bond yields drop, prices typically increase.

Equities:

- While not without its share of volatility, the Canadian equity market produced strong returns in 2010 due in part to robust performance from materials and economically-sensitive stocks. The current outlook for Canadian equities is positive heading into 2011 based on earnings visability. Corporate earnings have for the most part met or exceeded expectations in 2010 and 2011 estimates suggest continued positive growth.
- Canada is well positioned to benefit as the global economy moves from recovery phase into more moderate economic expansion in 2011.

Warren Jestin,
Senior Vice-President and Chief Economist of Scotiabank Group

Canadian Borrowing Trends

A rapid rise in borrowing and a buoyant housing market has pushed Canadian household debt to new records. However, the odds that this leveraging will trigger a full-blown relapse — either in the housing market, or more generally in the economy — are relatively low.

After witnessing the experiences of other countries during the global credit crisis, and living through the painful deleveraging here in the 1990s, Canadians are very cognizant of the dangers of excessive debt. But, unlike the last downturn, Canada entered the recent economic downturn with considerable advantages that reduce the risk of high household debt.

Canadian Corporations — Financially Strong, Poised For Growth

Canadian companies entered the recent downturn with among the strongest balance sheets in the developed world, giving the business sector greater stamina to deal with the global financial crisis. Canada's non-financial corporate sector began to strengthen

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Economic Update, continued...

its balance sheets in the early 1990s and remained on course even after companies in other nations adopted a re-leveraging strategy. As a result, Canadian corporations now have among the lowest debt-to-equity ratios in the developed world.

Government — Moving Towards Fiscal Restraint

Mirroring Canada's corporate balance sheet transformation, government balance sheets have strengthened substantially since the early 1990s, with 11 years of consecutive surpluses beginning in 1997. Despite revenue erosion and a substantial two-year stimulus effort through March 2011, the Canadian governments' setback following the recent global downturn amounts to only a fraction of their prior fiscal repair. On a general government basis that includes all levels of government, Canada posted a surplus of 1.5 per cent in 2007 that slid to a deficit slightly wider than 5 per cent in 2009.

Households — Preparing For Balance Sheet Repair

There are a number of reasons why Canadians' debt-to-income ratios have risen above the euro zone average and are closing in on other high-debt advanced nations, including the U.S., the U.K. and Australia.

A relatively stable inflation and interest rate environment, alongside financial product innovation, has helped Canadians to successfully manage financial risk and become less risk averse. Furthermore, with average household net worth still at near-record highs, Canadians today are comfortable carrying a higher debt load relative to their annual income flow.

Many households in Canada emerged from the recent global downturn less damaged than their G7 counterparts in terms of job losses and wealth declines, and more confident to take on additional debt. Low interest rates, unsettled equity markets and the home renovation tax credit all helped to spur an increase in housing investment. Meanwhile, Canada's solid financial sector resulted in less credit tightening than elsewhere.

Outlook

Canadians are already beginning to trim back the pace of borrowing while boosting their savings. Home sales have cooled sharply this year, consumer discretionary spending is slowing, and the personal savings rate is moving up.

We expect a further cooling of consumer spending and housing activity in the year ahead due to existing debt burdens coupled with slowing employment gains. Credit growth should slow more in line with underlying income trends over the next year, resulting in a leveling out in the aggregate debt-to-income ratio. While the government moves towards fiscal restraint, we expect cutbacks to be less drastic than we saw in the 1990s.

Overall, we believe Canada's strong balance sheet and economic advantages will continue to offset the risk of high levels of household debt.

Your feedback and questions are always welcome. You can contact us at feedback@scotiabank.com

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