



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

Economic update

Market movements support a long-term approach to investing.

As a new year dawns and many of us take the time to reflect on the past and consider what the future might hold, a look back at recent history leaves no doubt that volatility remains the only certainty when it comes to financial markets.

Overall, 2006 cemented some new economic realities while other newer trends emerged. Strong commodity prices persisted, largely because of ongoing demand from China and other parts of Asia. Resource-based economies, including Canada and some parts of Latin America, continued to benefit from this trend. For oil, although the supply crisis and steep run-up in price following the destruction by Hurricane Katrina in 2005 abated, high prices continued. Scotiabank economists expect oil prices to average US\$60/barrel in 2007.

And while China and other parts of Asia hold more potential for growth than the developed nations, memories of the Asian economic crisis of 1997 –



the so-called “Asian flu” that hurt most global economies – support the case for the cyclical nature of markets. Investors should remember also that, despite recent economic ascendancy, the Asian markets are still considered emerging ones and should be viewed as long-term investment opportunities.

A history of resilience

Last year questions continued to grow around the US position in Iraq and the cost of that war, which began with the British and US-led invasion in 2003. Yet, a look at the catastrophic “9/11” that precipitated the war offers a sound reason for long-term investing: stock markets fell and so did interest rates – to historic lows.

Stock markets have rebounded to new heights since the historic lows stemming from that tragedy.

In this edition

It's natural to want to make the most of your investments. But if you are moving in and out of your mutual funds as you try to predict the highs and lows of the market, you could be harming your financial health. That's because no one is capable of successfully timing the markets on a consistent basis. As market downturns have historically been short lived, being on the sidelines at any time could mean missing opportunities. Read on to learn how to maintain a long-term outlook, reduce risk and boost the returns from your portfolio.

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Scotiabank Asset Allocation Portfolios offer built-in but tailored diversification

Like many investors you may not have the time or the expertise to properly manage your investments to ensure that your portfolio is suitably diversified. Scotiabank offers six Asset Allocation Portfolios, each representing a mix of Scotiabank Mutual Funds and each designed to reflect time horizon, investment objectives and investor risk personalities. What's more, the Scotiabank Mutual Funds that comprise these Portfolios have proven track records of long-term performance. Below is the Balanced Portfolio's asset allocation.

Cash Equivalent 15%

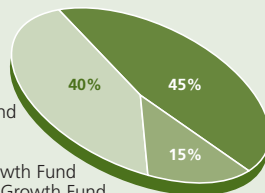
Scotiabank Money Market Fund

Income 40%

Scotiabank US Dollar Bond Fund

Growth 45%

Scotiabank US Growth Fund
Scotiabank Global Growth Fund
Scotiabank Canadian Growth Fund



Speak to your Scotiabank Mutual Fund Representative to learn more about how you might take advantage of the built-in diversification and excellent long-term results of Scotiabank Asset Allocation Portfolios.



The power of asset allocation

The most important decision isn't picking the "best" time to invest.

What is the most significant decision when it comes to the risk and potential returns of your investment portfolio? Surprisingly, it has little to do with picking the next hot investment or finding the perfect opportunity to invest. It's as simple as ensuring you hold a proper mix of investments over time.

How to deal with market fluctuations

Diversification is the process of investing in different asset classes, industry sectors, geographic location, and manager styles. By spreading your investments around – rather than focusing on a single segment or even a few areas of investing – you rely less on any single asset and more on the overall direction of your investment goal. Historically, diversification has proven its ability to provide long-term returns with reduced volatility in an investment portfolio.

In fact, as illustrated by the accompanying chart, a 1991 study found that market timing accounted for just 2.1% of a portfolio's volatility, while the

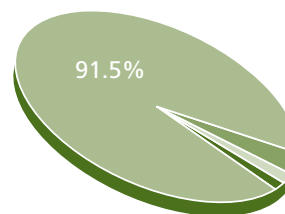
selection of individual investments was responsible for 4.6% of the up and down movements of a diversified portfolio. Asset allocation was by far the most important factor, determining 91.5% of the portfolio's fluctuations over the long term. Furthermore, research has also shown that practicing a long-term buy-and-hold strategy produces more consistent returns over time than moving in and out of the market.

Lower portfolio risk and higher potential returns

An appropriate asset allocation strategy will reflect your objectives, time horizon and risk tolerance. By putting in place an investment strategy using appropriate asset allocation principles, you can focus on your long-term goals instead of worrying about what your investments are doing from day to day, or even from month to month. That's good news because investors who stay true to their plans end up further ahead than those who attempt to time the market.

The Importance of Asset Allocation*

On average, more than 90% of the variation in portfolio returns can be attributed to asset allocation policy, not security selection or market timing.



*Source: Brinson, Singer, Beebower. "Determinants of Portfolio Performance II: An Update, Financial Analysts Journal, May/June 1991.

How to avoid the pitfalls of market timing

Successful investors stay in the market.

Sure you want to make money on your investments – and the faster those gains, the better. But if you believe you can pick the best times to invest and the best times to sell your investments, think again.

The reality of investing is that markets go up and down, but few investors (if any) are capable of consistently and successfully timing these movements.

Even worse, human emotions tend to compound the problem, leading most investors to get the timing wrong. History has shown that exuberance can lead investors to jump into investments when markets are at their peak, while anxiety can lead to selling investments when markets are at their low point – entirely wrong timing in both cases.

Expect short-term fluctuations

There's no doubt that there will be times when your investments fall significantly in value and other times when you'll experience great gains in your portfolio. In addition, the increasingly global nature of the economy means different markets may experience very different reactions at exactly the same time. For example, as the US economy grapples with that country's growing trade deficit in recent years, many emerging nations including China and other parts of Asia have benefited from their increasing share of world trade. Investment gains in one area could offset weakness in the other.

This all goes to show that ups and downs are natural to all market cycles.

And while it's just as natural to feel anxious when markets are losing value (especially when those declines are making headline news!), bear in mind that day-to-day, even monthly, fluctuations in the value of your investments are part of the cycle. The important fact to remember in all this is that, historically, the long-term trend for markets is positive and market recoveries have outweighed declines. So, no matter how much markets fluctuate in the short term, staying committed to your long-term plan is key to successful investing.

Invest to meet your goals

Suppose, for example, you had invested in Scotiabank Balanced Portfolio at the start of 2000 when your daughter was just 10 years old and the prospect of her university education seemed a long way off. As you know, since that time, there have been many dramatic market movements including a bear market that saw a severe decline in stock markets. In fact, a severe decline in technology stocks, the crisis of 9/11 and the start of the war in Iraq are just a few of the significant events encompassed by this worrisome period in world history. Yet your investment in Scotiabank Balanced Portfolio – which was spread over an appropriate mix of



cash, bonds and stocks – would have withstood the fluctuations, and would have fared better with fewer dramatic ups and downs than an investment in most single asset classes. In fact, seven years after making your investment, you'd be set to help your child begin her adventure in higher learning.

That hypothetical scenario is founded in real-life experience. Research has found that the longer the time horizon for investing, the slimmer the gap between the best and worst returns from most investments. In other words, as a long-term investor holding a suitably diversified portfolio of investments, you stand a better chance of riding out market downturns without significantly affecting your ability to reach your goals, than an investor who jumps in and out of the market.

Asset allocation controls risk by reducing volatility over time

Scotiabank Mutual Funds	ROR*	SCOTIABANK BALANCED PORTFOLIO RETURN*
Scotiabank Money Market Fund	2.77%	4.36%
Scotiabank US Dollar Bond Fund	5.61%	
Scotiabank Global Growth Fund	3.11%	
Scotiabank Canadian Growth Fund	10.28%	
Scotiabank US Growth Fund	-2.07%	

* 7 years annualized as at December 31, 2006

To learn more about Scotiabank Mutual Funds, contact your Scotiabank Mutual Funds Representative.

Simple strategies help you stay committed to your plan

Investors who begin early and invest regularly are better able to ride out the bad times and benefit from rising markets.



Let's face it: there's no substitute for knowledge and it's important to be an informed investor. But that doesn't mean investing has to be complicated. In reality, long-term investors can easily increase their chances of investment success by adhering to just a few proven principles. Here are a few simple steps to improving your investment plan.

1 Invest Early

Although many of your financial goals may seem a long way off, there are many reasons to begin investing now. For starters, time is a great ally to long-term investors because the sooner you start, the greater your ability to ride out the inevitable fluctuations that affect financial markets. Remember that few equity markets have experienced negative results over 10-year periods. Time also has a significant impact on your ability to build your savings because of the simple fact of compound growth.

2 Invest Regularly

Like most people, you probably have many financial obligations and building your investment plan may not seem all that important at the present time. But instead of waiting to see what, if anything, you have left over to invest after meeting your other financial responsibilities, treat investing as a regular commitment – just like paying the household bills or making your monthly mortgage payments.

Financial experts refer to this strategy as the “pay yourself first” principle, and you may be surprised at how effectively you can save by investing even small amounts regularly, such as through Scotiabank Pre-Authorized Contributions (PACs). By investing regularly, you also avoid the impossible challenge of finding the “best” time to invest. Instead, you're always investing, ensuring that you don't miss out on any opportunities.

3 Stay Invested

When a particular market segment is surging, it's tempting to chase the hot performers in that sector. Similarly, it's difficult to avoid panicking and the urge to abandon your investments when they experience short-term declines. But as you have learned in earlier articles, short-term market fluctuations are inevitable. Knee-jerk reactions – such as abandoning your asset allocation mix in favour of the current market trend – could leave you out of the market or in the wrong sector at the wrong time.

4 Diversify

Staying diversified is all the more important since markets don't move in tandem and there's a good chance that a downturn in one segment of the market will be offset by a rise in another sector – even in the shorter term. A better approach is to choose solid investments, ensure they're part of a suitable asset allocation plan and stick to that plan for the long term.

Important information about Scotiabank Mutual Funds is contained in the Funds' prospectus. Copies are available from Scotiabank and Scotiatrust branches and should be read carefully before investing. Share values and investment returns for the Funds will fluctuate. Past

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