



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

Economic update

More volatility to come in a changing economic environment

Signs of a slowing global economy emerged in the first quarter of 2007. Economies in the US, Europe and China are growing less quickly than previously forecasted, and this slowdown has caused concerns for investors around the world. On February 27 China's overheated stock market declined 9% in one day causing a ripple effect globally. While volatility in the markets is to be expected, such a dramatic drop is enough to shake the confidence of any investor.

Reasons for caution about US growth

Interest rates remain at 5.25%, unchanged since June 2006. Scotiabank's economists consider rates to be at pro-growth levels – an important factor in mitigating economic weakness.

Earlier estimates of personal consumption for the first quarter have now been restated downward. As well, US housing starts have fallen to nearly a 10-year low and there are indications that home values are shrinking. In terms of consumer spending, falling house prices limit the ability of homeowners to cash-out home equity and finance other purchases. Not surprisingly, reports for



February also showed declines in motor vehicle sales and in consumer confidence.

At the same time, policymakers in the US may be poised to make rate cuts – and may reduce rates by as much as 75 basis points later in 2007 – in an attempt to stimulate spending and the economy. The hope would be that such cuts will bring some additional cash flows, if not confidence, back to global stock markets. Whatever the decision on interest rates, the one sure thing for all investors going forward is continued volatility.

Balanced investments help guard against volatility

Faced with a changing economic and financial outlook, a balanced approach to investing may be more important than ever for investors.

In this edition

Why is the strategy of diversification so highly regarded by informed investors and by investment specialists? While there is no guarantee that the past will predict future outcomes, the historical performance of Scotiabank Asset Allocation Portfolios offers an answer. To date, the Portfolios have proved the consistent power of asset allocation when it comes to achieving reasonable rates of return – even as we face high levels of uncertainty and volatility in financial markets. Read further to learn how to make this simple strategy work for you.

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The right mix

Asset allocation helps ensure your portfolio is set for success.

You've no doubt heard about the importance of asset allocation for investment success. After all, some important studies have shown that the combination of assets you hold is by far the biggest determinant of how your portfolio behaves.

But just what is asset allocation and how does it work?

Quite simply, asset allocation refers to holding your investments in a mix of cash, fixed-income securities and equity investments. Asset allocation is a simple strategy based on the facts that various asset classes outperform at different times and there's no fail-proof way to predict which asset class will be the best performer in any given period. Because each asset class has a different level of risk and return, the right combination of asset classes can mean lower overall risk and greater potential returns for your investment portfolio over the long term.

For example, like all Scotiabank Asset Allocation Portfolios, Scotiabank Moderate Growth Portfolio holds a combination of Scotiabank Mutual Funds,

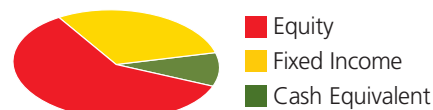
representing the three major asset classes and further diversified within a range of geographic and industry sectors. As well, the Portfolio holds set proportions of each asset class – 60% equity (growth), 30% fixed income and 10% cash equivalent – designed to fulfill certain investment objectives.

Avoid relying on the performance of any single asset class

As the table below illustrates, the best-performing asset class varies from year to year. For example, since the inception of the Scotiabank Moderate Growth Portfolio in 1999, Canadian bonds put in the strongest performance in 2002. But this fixed-income asset class proved to be the second-worst performer in the following year, when Canadian stocks outperformed.

The point is, bonds might be the best performer in one year, the next year, equities or even cash may bring the highest returns – you won't always know when and where to invest. What's more, the three different asset classes

Does your portfolio have the optimum asset mix for your needs?



Scotiabank Moderate Growth Portfolio

Scotiabank Moderate Growth Portfolio proves the power of asset allocation	Year	Rate of Return (%)
	2000	-2.36
2001	-4.04	
2002	-4.54	
2003	14.50	
2004	8.40	
2005	8.23	
2006	11.41	

generally perform well at different times and, at a given time, a decline in one asset class can be offset by growth in others. By blending all three asset classes in appropriate proportions – such as the combination in Scotiabank Moderate Growth Portfolio – you reduce the overall volatility and boost the potential long-term returns from your portfolio. Compare the year-to-year volatility of any one of the colour-coded indices with the range of returns for the Scotiabank Moderate Growth Portfolio above – you'll see the portfolio has been much less volatile than any of the indices.

Diversify across asset classes

Calendar Year Returns (US\$): Each asset class reacts differently to market conditions so a well-diversified portfolio is the best way to consistently achieve reasonable rates of returns.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nesbitt Burns Small Cap Index (Blended)	33.36%	28.58%	66.41%	6.52%	2.49%	9.86%	74.50%	25.95%	34.54%	32.59%
S&P/TSX Composite (Blended)	22.36%	20.33%	39.45%	3.78%	1.70%	0.10%	56.28%	23.47%	27.31%	26.86%
MSCI EAFE Index	9.49%	1.72%	27.30%	3.69%	-2.37%	-6.00%	54.92%	23.08%	22.75%	18.37%
MSCI EM (EMERGING MARKETS)	5.01%	-2.55%	27.22%	-3.02%	-2.67%	-11.53%	47.25%	20.70%	14.02%	17.71%
Russell 2000	2.48%	-8.15%	21.26%	-9.11%	-11.88%	-15.66%	39.17%	18.33%	9.19%	17.09%
Scotia Universe	2.06%	-23.51%	21.04%	-13.96%	-17.74%	-20.48%	30.43%	15.56%	4.91%	15.79%
S&P 500 Index	-11.58%	-25.34%	4.63%	-30.61%	-21.21%	-22.10%	28.68%	10.88%	4.55%	4.45%

Annual Total Returns(%). All returns in US dollars. Source: Zephyr Style Advisors.

Asset allocation made easy

What's your investor profile? Complete the Scotiabank *Investment Selector* to find out and get the most from your investments.

By now you know that allocating your investments among equities, fixed-income investments and cash is crucial to how your investment portfolio performs in the long term. But how do you determine how much of your portfolio to hold in each asset class? It all depends on your investor profile. When considered as part of your overall investor profile, your risk tolerance, personal financial situation, and timeline for investing help determine the best possible mix of asset classes for your individual needs.

Scotiabank *Investment Selector* is a simple tool that uses your answers to some key questions to get to the heart of your personality as an investor and, ultimately, to arrive at an asset allocation recommendation. And implementing the recommended asset mix is simple, thanks to Scotiabank Asset Allocation Portfolios. With six carefully designed portfolios each constructed from the well-established family of Scotiabank Mutual Funds, you can be certain there's a Portfolio to suit your investor profile.



The only certainty in life is change

Are you confident your investment plan is on track to meet your financial goals? An annual review of your personal situation can help ensure your investments continue to reflect your circumstances and your long-term goals. If you haven't reviewed your Scotiabank *Investment Selector* questionnaire in a while, contact your Scotiabank Mutual Fund Representative today.

Glossary

What you should know about asset allocation

Here are some key concepts in understanding the power of asset allocation:

Cash and cash equivalents: Investments offering the highest level of safety and liquidity, such as money in the bank, Term Deposits with short maturities and the Scotiabank Money Market Fund.

Equity investments: Sometimes referred to as "growth" investments, equity investments are ownership investments such as stocks in a company or mutual funds that invest in stocks. Equities carry higher risk than fixed-income or cash-equivalent investments but also offer higher potential returns in the long term.

Fixed-income investments: Investments that generate income and preserve capital, and may offer the potential for increased value, such as government and corporate bonds, longer-term Term Deposits, certain types of shares that pay dividends and the Scotiabank US Dollar Bond Fund.

Investment objectives: The investments you choose must match your goals. For example, you might be most concerned with preserving your capital, generating income from your investment, or increasing the value of your investment over the longer term. Or you may have a combination of these objectives in mind.

Portfolio: A group of investments designed to achieve a specific objective or set of objectives.

Risk: Investments with factors such as higher levels of volatility tend to carry more risk, but also tend to have higher potential returns. The risk is that the investment could actually result in lower returns than expected, depending on the time period.

Risk tolerance: This is your comfort level with the amount of risk in your investments. Consider the "sleep factor" – if you stay awake worrying about the prospect of losing money in the short term, you may be holding investments that carry too much risk. You may need to adjust your investment plan to include more moderate investments.

Time horizon: The risk that you'll lose money on an investment generally declines over time. If you hold on to your investments over the long term, you'll have a greater ability to ride out short-term market fluctuations. That's why it's important to consider your time horizon when choosing your investments.

Volatility: A relative rating of risk. Volatility is a measure of how much your investment might vary in value, upward or downward in a given period of time.

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

Investing in uncertain times

Current events leave no doubt that we live in turbulent times. In recent years alone, we have grappled with the threat and reality of terrorist attacks, faced the uncertainty of ongoing conflict in the Middle East, and been challenged to understand a complex and constantly changing geopolitical landscape. Add to this the numerous financial obligations of everyday life and who could blame you for wanting to play it safe with your hard-earned cash?

But while a short-term perspective on world events can be disheartening, in reality, any downturns in major markets caused by wars and other forms of unrest have always been short lived. History shows that markets have weathered even significant crises to the advantage

of investors and, over the long-term, economies have consistently strengthened and stock markets continue to climb to new records.

As an investor, this key realization confirms the importance of a long-term view. In particular, bear in mind that, if you're saving for the long term, you must focus your savings on long-term assets in order to meet your objectives. Although cash may be especially appealing in a world of uncertainty, equity investments will outperform over most long-term periods. By maintaining an appropriate asset allocation in your portfolio, you can ride out the inevitable market volatility that is a part of our ever-changing world.

Excuses for not investing

There will always be an excuse to not invest but none of these events have had a lasting effect on the long-term growth of major markets.

- 1950–Korean War
- 1953–Soviets explode H-bomb
- 1957–Soviets launch Sputnik
- 1958–Recession
- 1959–Castro seizes power
- 1961–Berlin Wall erected
- 1962–Cuban Missile Crisis
- 1963–Kennedy assassinated
- 1966–Vietnam War escalates
- 1968–U.S.S. Pueblo seized
- 1971–Wage-price freeze
- 1972–Watergate
- 1974–Nixon resigns
- 1976–NYC threatens bankruptcy
- 1977–Energy crisis
- 1981–Reagan and Pope shot
- 1982–Worst recession in 40 years
- 1984–Iran/Iraq war escalates
- 1985–U.S. becomes a debtor nation
- 1987–Record-setting market decline
- 1990–Iraq invades Kuwait
- 1991–U.S. recession; USSR dissolves
- 1992–L.A. riots
- 1995–Dow tops 4000 then 5000; Market "too high"
- 1998–Global economic turmoil
- 2000–Internet "bubble" bursts
- 2001–Terrorist attacks in U.S.
- 2002–Worst Bear Market since '29-32; Enron, Tyco, Worldcom
- 2003–War in Iraq, SARS
- 2005–Terrorist attacks in London; Hurricane Katrina
- 2006–Middle East conflict; Nuclear concerns

Learn how easy it is to get asset allocation working for you

Make the most of your investments by setting up a Scotiabank Pre-Authorized Contribution (PAC) plan. Here's how it works: After working with your Scotiabank Mutual Funds Representative to complete a Scotiabank Investment Selector and determine your investor profile, make an initial investment of at least US\$5000 in the recommended Scotiabank Asset Allocation Portfolio. Then, arrange for subsequent automatic investments of as little as US\$100 regularly from your bank account to the selected Portfolio.

By investing regularly you build your assets easily and quickly. When you choose a Scotiabank Asset Allocation Portfolio, you'll be amazed at how simple it is to get the asset mix that's best for you!

Check out what's new!

To learn more about Scotiabank Asset Allocation Portfolios, see the new and improved Scotiabank Mutual Funds Quarterly Factsheet enclosed with your account statement. You'll find in-depth information on all the Portfolios, including a breakdown of the Scotiabank Mutual Funds that make up the portfolios, the latest performance data, up-to-date economic commentary, and much more.

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

performance is not indicative of future performance. Scotiabank Mutual Funds are not insured by, nor guaranteed by, The Bank of Nova Scotia.

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