



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

ECONOMIC UPDATE

Investors face heightened volatility

The last quarter has seen increased levels of volatility in stock markets, including several single-day losses that jarred even the most experienced investors. In the US, the benchmark S&P 500 Total Return Index fell 3.20% (US\$) in July, and rose 3.58% (US\$) in September. Many factors are contributing to the extreme market movements of late but problems in the US real estate market are generally considered to be a key issue. Here's a look at the concerns behind the recent turmoil.

Understanding the headlines



As the housing boom in the US gained force over the past several years, loans to

home buyers with weak credit histories were issued in growing numbers. Many lenders pooled these lower-quality loans and sold them as investments known as mortgage backed securities. When problems arose, increasing numbers of borrowers began to default on their

mortgage payments. The holders of these securities, including giant hedge funds and other institutional investors, scrambled to sell these risky investments.

The resulting "credit crunch" in the financial markets leaves corporations and consumers with less money available to spend, and that reduction could prove negative for the economy. In fact, anxiety has spread amid fears that this lack of liquidity could lead to a lasting downturn, not just in the US but in the overall global economy.

Keep matters in perspective

Despite the worrisome headlines, it's important to keep recent events in perspective. Stock markets in the US, Canada, and other regions have made healthy cumulative gains over the past four years. As well, it's important to note that key policymakers, including the US Federal Reserve, are working to resolve the problems of liquidity – by reducing interest rates to spur spending and inject cash into financial markets, for example. Above all, keep in mind that there have always been crises in the past, and long-term investors who have a well diversified asset allocation portfolio have always benefited over time.

In this edition

Now is a difficult time for investors. As stock markets around the globe ride a roller coaster of day-to-day ups and downs, recent months have seen many investors caught up in equally heightened swings of emotion. In this edition of *investment advisor*, we'll help make sense of the confusion in financial markets, including the reasons for the latest market volatility and what you can do now to deal with the uncertainty.

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How to survive volatile markets

Don't let emotions derail your plan

Given the high levels of volatility of the past few months, wariness is understandable, and you may be tempted to sell your investments and opt out of the market altogether.

In reality, reacting emotionally – by panic-selling your investments when markets experience a decline, for example – could be the worst thing you can do as an investor. That's because downturns are an inevitable part of the natural market cycle, and a historical view shows that selling when markets are down means you risk missing out on the potential for a strong rebound.

What counts most? Time in the market, NOT market timing

Consider the examples in the accompanying charts. An investor who invested \$10,000 in the Scotiabank Canadian Growth Fund at the end of 1999 would

have watched their investment grow to \$13,681.32, a gain of almost 37%, had they stayed in their investment for seven years. The green line on the graph shows what would have happened if they let emotions rule and transferred their investment to the cash-equivalent Money Market Fund when their investment had fallen to \$7,629.51 on paper. That move would have left them with an opportunity loss of \$5,413.62 for the same seven-year period.

Similarly, an investment of \$10,000 in the Scotiabank Balanced Income and Growth Portfolio on December 30, 1999 would have been worth \$13,112.21, for a gain of 31.12% at the end of 2006. Compare this growth to the experience of an investor who attempted to time the market by redeeming their investment and switching to the Scotiabank Money Market Fund in September 2002. Opting



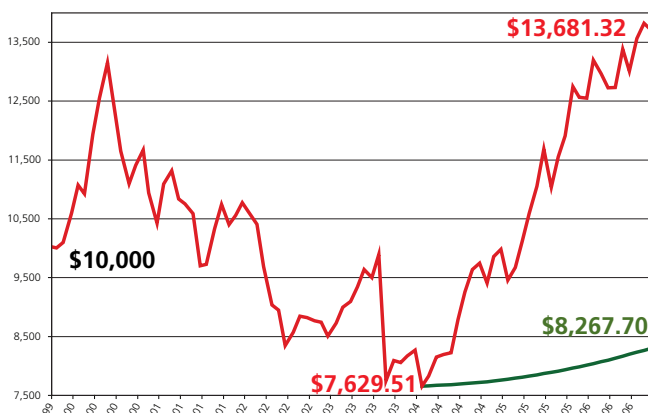
out of the market may have allayed their jitters at a difficult time but, while waiting for markets to recover, they would have also missed out on the opportunity of \$2,887.12 over the remaining period to December 2006.

Stay invested – we can help

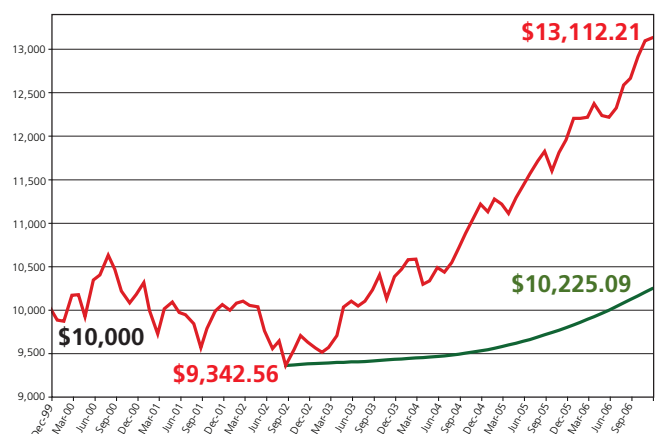
It helps to remember that, throughout history, markets have regularly suffered losses – some of them drastic – but have always rebounded well beyond those short-term downturns over time. Contact your Scotiabank representative to learn how you can implement some simple strategies that can help you ride out the ups and downs – no matter how the market moves in the shorter term.

Staying invested vs. attempting to time the market

Scotiabank Canadian Growth Fund to Scotiabank Money Market Fund



Scotiabank Balanced Income and Growth Portfolio to Scotiabank Money Market Fund



Important Information

Scotiabank Mutual Funds have a new Custodian and Transfer Agent

As advised in the last issue of *investment advisor*:

Effective July 23, 2007, Scotiabank & Trust (Cayman), the Distributor of the Scotiabank Mutual Funds, has engaged State Street Cayman Trust Company (Ltd.) to serve as transfer agent and State Street Bank and Trust Company to serve as custodian to the Scotiabank Mutual Funds.

Also as of July 23, 2007, Scotia Cassels Investment Counsel Limited was appointed as the Investment Advisor on the Scotiabank Money Market Fund, replacing The Bank of Nova Scotia Trust Company (Bahamas) Limited. The investment mandate and objectives of the fund are unchanged.

At the same time, the Distributor has moved to enhance investors' rights with an amendment to the Articles of Association of Scotiabank Money Market Fund, Scotiabank US Dollar Bond Fund, Scotiabank Global Growth Fund, Scotiabank US Growth Fund and Scotiabank Canadian Growth Fund. Investors must now be given 30-days notice before any changes that would materially prejudice investors are made to the Funds. (No notice is required for changes that are not materially prejudicial to investors.)

A strategy for turbulent times

Dollar-cost-averaging makes market volatility work for you

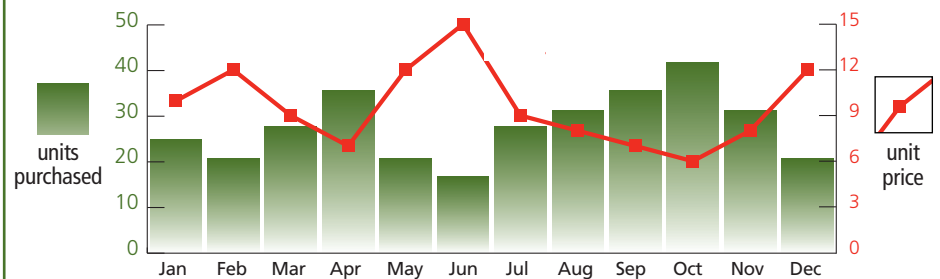
It's inevitable that markets go up and down, and it's equally certain that no one can predict accurately the timing of these movements. That makes it extremely unlikely that any investor will be able to exit the market at precisely the right time to avoid the worst losses, and enter in time to earn the highest returns. In fact, when emotions come into play, you might wind up doing the opposite of what you hope to achieve.

Instead of trying to time the market, a simple and effective way to overcome market volatility is to use dollar-cost-averaging, a strategy for regular investing that's easy to access through Scotiabank's Pre-Authorized Contributions (PAC) service.

Pay yourself first with Pre-Authorized Contributions

With Scotiabank's PAC service, you decide how much you want to invest in a Scotiabank Mutual Fund or Portfolio of your choice (subject to minimum requirements). You also choose the frequency of those investments, based on your personal situation, and the transactions take place automatically from your US\$ bank account to your mutual funds account.

How dollar-cost-averaging works for you over the course of a year:



Your Pre-Authorized Contribution service is set up to **invest the same dollar amount each and every month**. Since the unit amount of your selected mutual fund moves up and down, **you purchase a different number of units each month**, for example, **in June, when the price is at the highest point** for the year, your PAC buys you the **fewest number of units** of your selected Scotiabank Mutual Fund; conversely, **in October, when the price is at a low** for the year, you purchase the **greatest number of units**. By buying more units in months when prices are low and fewer when prices are high, you end up **paying a lower average cost** and **have a greater total number of fund units** than if you had made a lump-sum investment at the beginning of the year.

As you can see from the illustrated example above, when you invest regularly using a PAC service, you buy fewer units when the price of your investment is high and more units when the price drops. So, price volatility actually works to your advantage giving you a lower

overall cost for your investment. Another benefit of dollar-cost-averaging is that you don't have to come up with a lump sum to invest but can build your portfolio with regular, small investments spread out over time.

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

Time for a reality check

Instead of overreacting to current market conditions, try taking emotion out of your investment decisions. To start, take a step back and revisit your financial goals: What are your reasons for investing in the first place?

Whatever your objectives, use your answers to these key questions to help determine if your plan is on track for success.

- Have you put your goals on paper lately?
- Do you hold the types of investments that are best suited to your goals and investment time frame?
- Is your portfolio diversified globally, and by asset class, industry sector and investment style?
- Do you invest regularly using a PAC plan to take advantage of dollar-cost-averaging?

Now is a good time for expert help

Visit your Scotiabank branch and speak to your Scotiabank Mutual Fund Representative or Investment Specialist to ensure you have in place the strategies and investments that will help you achieve your goals!

Markets move in cycles

The cloud of economic uncertainty currently hanging over Wall Street may be dampening investors' spirits but global economic growth remains strong. As you can see from the table below, markets

are always volatile. Diversifying by geography, asset class, industry sector and investment style is a simple strategy to ensure that your portfolio is positioned to take advantage of all market cycles.

Scotiabank Mutual Funds Asset Allocation Portfolios are specifically designed to recognize your financial goal(s), risk tolerance level and to capitalize on market cycles.

Diversify across asset classes

Calendar-Year Returns (US\$) as of December 2006: 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)	51.87%	28.58%	87.84%	6.52%	18.34%	9.86%	140.73%	47.77%	45.89%	45.77%
S&P/TSX Composite (Blended)	34.84%	20.33%	69.20%	3.78%	2.49%	0.10%	80.44%	28.88%	44.94%	44.59%
MSCI EAFE Index	33.36%	1.72%	66.41%	3.69%	1.70%	-6.00%	74.50%	28.76%	34.54%	32.59%
MSCI EM (EMERGING MARKETS)	22.36%	-2.55%	39.45%	-3.02%	-2.37%	-11.53%	56.28%	25.95%	27.31%	32.12%
Russell 2000	9.49%	-8.15%	27.71%	-9.11%	-2.67%	-15.13%	54.92%	23.47%	22.75%	26.86%
Scotia Universe	9.08%	-23.51%	27.30%	-11.03%	-5.30%	-15.66%	47.25%	23.08%	18.38%	18.37%
S&P 500 Index	5.01%	-25.34%	27.22%	-13.96%	-11.88%	-20.48%	39.17%	20.70%	14.02%	17.71%
Chile - IPSA	2.48%	-28.05%	21.26%	-17.66%	-17.74%	-22.10%	32.82%	18.33%	9.19%	17.09%
Brazil - BOVESPA	2.06%	-32.52%	21.04%	-21.76%	-21.21%	-22.42%	30.43%	15.56%	4.91%	15.79%
Mexico - IPC	-11.58%	-38.32%	4.63%	-30.61%	-25.03%	-45.72%	28.68%	10.88%	4.55%	4.45%

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

Important information about Scotiabank Mutual Funds is contained in the Funds' prospectus. Copies are available from Scotiabank and Scotiastock branches and online at www.scotiabank.com, 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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