



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

ECONOMIC UPDATE

Market volatility remains the order of the day

With a diversified plan, there's no need to worry about the market

Volatility continues to dominate financial markets and stability will not reassert itself anytime soon, according to Scotiabank economists. As the meltdown in the sub-prime mortgage market plays out, the US economy is expected to continue slowing in the months ahead. Consumer spending, which so far has been shoring up the domestic economy, is expected to decline amid fewer housing starts and an ongoing real estate crisis.

Until now, world economic expansion has generally held firm in the face of slowing US growth. Developing nations in particular have been largely unscathed by the disruptions that have strained financial markets and affected most major economies. As well, despite slower US import growth, world demand for commodities has remained high. Currencies of Canada and other commodity exporters have strengthened against the weakening US dollar.

Diverse prospects for global growth

There are no certainties when it comes to the longer-term prospects for US and global growth. Although global activity in



developing nations is expected to remain relatively high, the overall economic

picture remains murky and the prospects for global growth are diverse.

Over the next two years, for example, Scotiabank economists expect slightly lower growth in the UK and in Japan than previously forecast. Meanwhile, growth expectations for Brazil have been raised as that nation continues to benefit from favourable commodity prices and contained inflation.

How will your investments fare?

With so much unknown, how should you position your investment portfolio? The best approach is to ensure your portfolio continues to hold the combination of stocks, fixed income and cash that is most appropriate for your investment objectives. By holding a well-diversified portfolio that is monitored and rebalanced regularly to maintain your optimum asset mix, you can rest assured you're on track to reach your investment goals.

In this edition

Markets move in cycles and the mix of asset classes in your investment portfolio is the single biggest determinant of your portfolio's long-term performance. When you invest in a Scotiabank Asset Allocation Portfolio, you hold a well-diversified combination of sound investments that is appropriate for achieving your financial goals. Now, with the new Scotiabank Asset Management Service (AMS) you can ensure you maintain that optimum asset mix and stay on track to your objectives. Read on to learn how easy it is to get AMS working in your Portfolio.

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Scotiabank Asset Management Service

Ensuring optimum asset mix

Each Scotiabank Asset Allocation Portfolio is professionally built, with varying weights of individual Scotiabank Mutual Funds providing diversification by asset class, as well as by geography, industry sector and investment management style.

Now, with the additional layer of automatic quarterly reviews and rebalancing, when necessary, provided by Scotiabank Asset Management Service (AMS), you can be confident your Portfolio maintains this optimal asset mix.

Here's how it works. You may already know that asset allocation – the percentages of cash, fixed income and equity investments in a portfolio – is responsible for more than 90% of long-term performance. That is the principle underlying all Scotiabank Mutual Funds Asset Allocation Portfolios.

When you work with your Scotiabank Investment Representative to select the appropriate portfolio for each of your financial goals, you take into account

your Investor Profile, including your risk tolerance and time horizon.

But markets move up and down, and these natural movements can affect your Portfolio's asset allocation, moving your holdings away from their optimum mix.

For example, when a particular asset class experiences a period of strong performance, the Fund(s) that represent that asset class will increase in value to assume a bigger percentage of the Portfolio, creating a positive weighted variance. Conversely, an asset class that experiences a downturn will result in a decline in the value of the Funds that represent that category in the Portfolio – a negative weighted variance.

AMS adds a valuable layer of investment management

In reality, markets seldom move in tandem. For example, rising bond prices are usually accompanied by lower stock prices, while a surge in one industry sector might see another part of the

economy experience a downturn.

The degree of variance in your Portfolio depends partly on the timing of your individual investment. On the 20th of each calendar quarter-end month – March, June, September and December – Scotiabank AMS verifies each Fund's weighting in the Portfolio. If at least one of the Funds in your Portfolio has drifted 3% or more, either positively or negatively, from its prescribed weight, the AMS eliminates the difference. That's done by redeeming and transferring enough money from Funds whose allocations have increased beyond their prescribed weights, to Funds whose weights have declined.

By regularly monitoring and rebalancing your Scotiabank Asset Allocation Portfolio, AMS ensures the weightings of each component stays on target.

Benefits of quarterly rebalancing

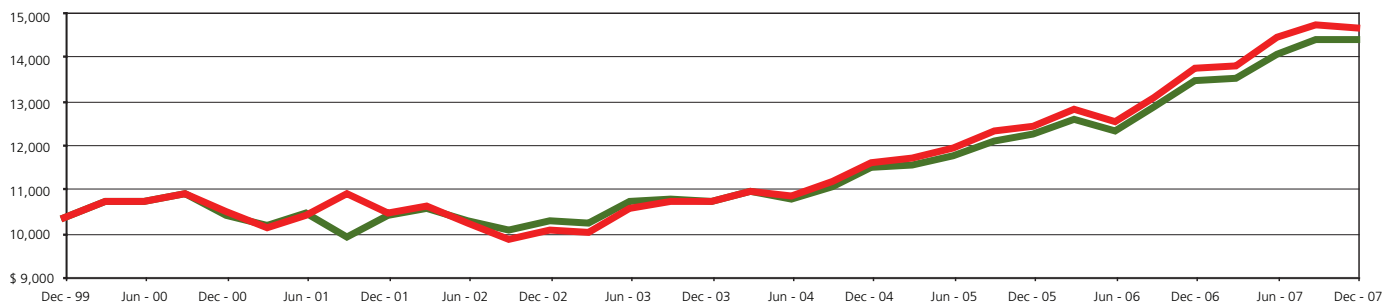
From a longer-term perspective, the gains from the AMS would have been evident,

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Benefits of Quarterly Rebalancing - Scotiabank Balanced Income & Growth Portfolio

Launch Date: December 2, 1999
 Market Value(s): December 31, 2007
 Initial Investment: US \$10,000

— NO REBALANCING: US \$14,325.09
 — REBALANCING & FEES: US \$14,662.14



Scotiabank Canadian Growth Fund

Built-in diversification and high-quality holdings in a professionally managed investment

even after taking into account the small annual fee of 0.01% that's charged based on the market value of the Portfolio on the last quarterly rebalancing each year.

Consider the hypothetical analysis on the previous page, showing an initial investment of \$10,000 in Scotiabank Balanced Income & Growth Portfolio at inception in December 1999. At December 31, 2007, the Portfolio would have grown by an additional \$297.05 after fees, with appropriate rebalancing using the AMS process, compared to a Portfolio that had not been rebalanced over the same period.

What's more, the level of discipline imposed by AMS allows you to protect gains in the market, since the rebalancing process locks-in and redistributes any gains. As a means of diversification, regularly redeploying gains into other markets also means reducing the risk-return dependence on any one sector. With this commitment to diversification, market risk is continuously managed and returns over time will be more stable.

With its portfolio of growth-oriented, high-quality securities listed on Canadian stock exchanges, Scotiabank Canadian Growth Fund is an excellent core holding for investors who want exposure to the Canadian economy. The Fund is an important component of most Scotiabank Asset Allocation Portfolios.

Access to leading companies

Financial sector holdings, for example, include many world-class banks and insurance companies that are domiciled in Canada, such as Royal Bank of Canada, CIBC and Manulife Financial. Meanwhile, exposure to the energy and resource sectors is achieved by investing in industry leaders, such as energy Suncor and Barrick Corp.

Professional management pays off

With more than US \$14 billion in assets under management, Fund Advisor,

Scotia Cassels Investment Counsel Limited (Scotia Cassels), is one of the largest investment managers in Canada. The Fund has posted impressive results, including an annual compound return of 10.46% (US \$) in the 10 years to December 31, 2007.

Scotiabank Canadian Growth Fund

Year	Rate of Return (%)
1997	12.99
1998	-3.56
1999	28.00
2000	13.82
2001	-5.87
2002	-17.95
2003	-8.29
2004	20.55
2005	22.27
2006	15.14
2007	28.14

Glossary

Professional monitoring and rebalancing can boost the performance of your Scotiabank Asset Allocation Portfolio over the long term. Here are some key terms to help you understand the new AMS.

Investor profile: An analysis of your complete financial picture – including your risk tolerance and time horizon – in order to determine the investment profile for your investment goals.

Drift: The tendency for the component Funds in your professionally constructed Portfolio to move away from prescribed weightings of the model because of normal market movements.

Prescribed weight: The defined percentage of each Fund within a Portfolio, to achieve appropriate diversification by asset class, geography, industry sector and investment management style.

Quarterly rebalancing: Returning a Portfolio to its prescribed weight by shifting gains from Funds with positive changes to Funds that have experienced negative changes when the weighted variance of any one or more Funds has drifted by 3% or more.

Weight variance: The percentage by which a component Fund moves up or down past its prescribed weight.

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

Why is diversification so important?

The proper mix helps reduce portfolio volatility and increase long-term returns



It's with good reason that the old adage "Don't put all your eggs in one basket" is also a cardinal rule of investing.

Economies, interest rates, currencies and sectors do not move in tandem.

In 2007, for example, some developing nations fared better in terms of economic growth than bigger, more established markets, and that was reflected in stock market returns. But this won't always be the case and it's impossible to consistently predict which asset class will outperform in any given year.

By diversifying across asset classes and sectors, you can manage the overall risk of your portfolio and ensure that long-term results are not dependent on the performance of any single market.

Get the most from your Portfolio

Regular reviews and rebalancing when needed can optimize the returns from your Investment Portfolio. Speak with your Scotiabank Investment Representative and find out how AMS can ensure you always have the best mix of assets for your investment goals!

Diversify across asset classes

Calendar-Year Returns (US\$) as of December 2007: 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	2007
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%	72.86%
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%	39.78%
MSCI EAFE Index	33.36%	1.72%	66.41%	3.69%	1.70%	-6.00%	74.50%	28.76%	34.54%	32.59%	29.50%
MSCI EM (EMERGING MARKETS)	22.36%	-2.55%	39.45%	-3.02%	-2.37%	-11.53%	56.28%	25.95%	27.31%	32.12%	22.23%
Russell 2000	9.49%	-8.15%	27.71%	-9.11%	-2.67%	-15.13%	54.92%	23.47%	22.75%	26.86%	21.37%
Scotia Universe	9.08%	-23.51%	27.30%	-11.03%	-5.30%	-15.66%	47.25%	23.08%	18.38%	18.37%	20.28%
S&P 500 Index	5.01%	-25.34%	27.22%	-13.96%	-11.88%	-20.48%	39.17%	20.70%	14.02%	17.71%	11.63%
Chile - IPSA	2.48%	-28.05%	21.26%	-17.66%	-17.74%	-22.10%	32.82%	18.33%	9.19%	17.09%	10.56%
Brazil - BOVESPA	2.06%	-32.52%	21.04%	-21.76%	-21.21%	-22.42%	30.43%	15.56%	4.91%	15.79%	5.49%
Mexico - IPC	-11.58%	-38.32%	4.63%	-30.61%	-25.03%	-45.72%	28.68%	10.88%	4.55%	4.45%	-1.57%

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 Scotiastore 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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