



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

ECONOMIC UPDATE

What market movements mean for investors

History shows positive long-term trend for stocks

So far this year, the slowdown in the US economy continues to shape financial markets and the coming months will pose ongoing challenges to investors, according to Scotiabank economists. Investor nervousness was exacerbated in March when policymakers were forced to arrange a bailout for troubled US investment banker Bear Stearns.

Overall, tighter credit conditions related to subprime mortgages in the US, reduced trade momentum and more cautious consumer spending will contribute to slower global growth and ongoing high levels of volatility in financial markets.

Deep cuts to US interest rates so far in 2008 were also designed to allay worries about the health of the overall financial system and are likely to be followed by more reductions as policymakers move to counter the economic slowdown. One result of these lower rates is that the US dollar will remain under downward pressure.

Despite slow US growth; however, and in keeping with history, all markets will not behave the same. Global growth should hold up generally better than

the US economy. And while major developed nations grapple with weaker production and job creation through the first half of the year, some emerging nations, such as Russia and India, are expected to outperform significantly. As well, demand for commodities and energy remains strong with resource exporters reaping the benefits. Mexico's growth, for example, will be sustained by high oil prices and boosted by improving fundamentals and increasing foreign direct investment.

While we will undoubtedly continue to see ups and downs in overall markets over the near term, the diverse performance of various sectors underlines the importance of diversification. At the same time, investors can find confidence in the fact that historically markets have consistently gone up over the long term.



In this edition

As we face increasing concerns about the US economy, record oil prices and historic currency fluctuations, it's been an eventful time for investors. But while the high levels of volatility we're experiencing currently are indeed challenging, remember that investment success depends on results over time periods and not what happens in a single day, month or even in a given quarter. To help you keep this important perspective, this edition of *investment advisor* offers valuable insights on historic market volatility, including the views of one experienced Scotiabank market professional. Also, read on to learn about some investment strategies that can help overcome even the most drastic market changes.

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Speak with your Scotiabank Investment Representative to learn how you can enhance your portfolio!



Equities stand the test of time

Veteran manager offers a valuable perspective on current turbulence

Over 23 years working in Canadian equity markets, Portfolio Manager Susan Lavigne has gained an in-depth understanding of market volatility. Before joining Scotia Cassels Investment Counsel Limited in 2003, she held the position of Vice President, Canadian Equities, with the investment division of a major Canadian insurance company, and has extensive research experience in all sectors of the market.

IA: What factors are affecting equity markets at the present time?

SL: Equity markets fluctuate due to economic cycles. At all times, markets are affected by a number of factors, including interest rate changes, global growth prospects, the current stage of the market cycle, and inflation expectations. Also, geopolitics – the changing political relationships among nations and regions – influence equity markets.

IA: Why is it important for investors to maintain exposure to stock markets, even in turbulent times?

SL: While there is more volatility in equity markets compared to bonds and money market investments, returns from equities through a conservatively managed, diversified portfolio, such as Scotiabank Canadian Growth Fund, can enhance portfolio results in the longer term. Over the past five years, for example, the annual compound returns have been 3.2% from T-Bills, 5.6% from the Bond Universe and 18.3% from the S&P/TSX Composite Index, which comprises the largest companies listed on the Toronto Stock Exchange.

IA: What are the advantages of investing in equity markets through Scotiabank Canadian Growth Fund?

SL: A diversified portfolio of equities, such as this Fund, provides exposure to various companies that benefit from the different stages of an economic cycle. For example, in a downturn a defensive posture calls for exposure to stable income-earning companies that pay dividends to investors. Conversely, in the early stages of an economic recovery the focus would be on companies in sectors that exhibit growth and leverage to the cycle. These would include industrial cyclicals and resources.

Scotiabank Canadian Growth Fund

Top 10 Holdings as of March 31, 2008 Fund %

| | |
|----------------------------|-----|
| ROYAL BANK | 6.0 |
| MANULIFE FINANCIAL | 5.5 |
| ENCANA | 5.1 |
| TD BANK | 4.9 |
| SUNCOR | 4.5 |
| RESEARCH IN MOTION | 4.2 |
| POTASH CORP | 3.7 |
| BARRICK CORP | 3.2 |
| CANADIAN NATURAL RESOURCES | 3.2 |
| CAN. NATIONAL RAILWAYS | 3.0 |

As Investment Manager, Scotia Cassels draws on a long history and deep experience

In its role as Fund Advisor to Scotiabank Money Market Fund, Scotiabank US Dollar Bond Fund and Scotiabank Canadian Growth Fund, Scotia Cassels Investment Counsel Limited (SCIC) (and its predecessor companies) draws on a long history of managing money on behalf of mutual funds, private clients and institutions.

The firm has been providing investment management services since 1877 and currently oversees more than \$25 billion in assets. Headquartered in Toronto, SCIC works to preserve and enhance assets by pursuing superior investment returns on behalf of its clients.

Scotiabank *Principal Plus* Portfolio
Strategy combines safety with potential
returns that outpace inflation.

Does your “safe” investment beat inflation?

Scotiabank *Principal Plus* Portfolio Strategy combines protection with market potential

There is no denying that the outlook for the economy has become less clear in recent months. And in the face of this uncertainty, it is certainly natural to be attracted to the safety of term deposits and other cash-like investments.

Currently, for example, low short-term interest rates in the US have put downward pressure on the US dollar, spurring some local governments to raise interest rates in an attempt to control inflation in their own economies. (Inflation is the percentage increase in prices of all goods and services in the economy.)

While these posted rates, coupled with the apparent safety of term deposits, may be especially appealing when markets are undergoing dramatic fluctuations, in reality, sitting in cash puts your money at risk in other ways.

That's because you'll have to subtract the rate of inflation from the posted or quoted interest rate in order to determine your “real” interest rate – what you actually earn on your investment. Although you may believe you're playing it safe by opting out of stocks and bonds and choosing a term deposit, you may actually be losing purchasing power, earning less than you need to stay ahead or even keep up with the rising costs of goods and services.

Interest rates and inflation

Central bankers around the world use interest rates to manage inflation. That's because interest rate levels affect how much consumers save or spend, and may help determine increases in the cost of goods and services – that is, the level of inflation – in a given market.

At the same time, changing interest rates policies also affect local currency values in relation to the US dollar.

The potential effects of rising inflation and fluctuating foreign exchange rates on purchasing power can be seen in the accompanying table, which shows foreign exchange rates and inflation trends in selected countries as at December 31, 2007.

A simple way to protect your earnings against such fluctuations in local currencies is to hold investments denominated in US dollars.

Principal Plus helps control risk, boost potential returns

But preventing the erosion of the purchasing power of your hard-earned savings may also depend on investing in stocks and bonds, two asset classes that have historically beaten inflation.

Scotiabank's *Principal Plus* strategy is designed to give investors the opportunity to invest in the asset classes that offer the highest potential returns while protecting their principal investment.

It starts with the concept of “Present Value / Future Value,” which is used to determine the amount that must be invested now – the Present Value – in order to generate the returns needed to arrive at a specific amount in the future

– Future Value. For example, to end up three years from now with US\$150,000, knowing the rate of return is 4.5%, you would need to invest US\$131,444.49 today. In other words, the Present Value of US\$150,000 with a 3-year investment time horizon and a return of 4.5% is US\$131,444.49.

Here's an example of how implementing the *Principal Plus* strategy might work for an investor with \$150,000 to invest: if the Present Value of US\$131,444.49 was invested in a US dollar – denominated investment with a fixed rate of return of 4.5%, remember, according to our calculations, this will generate a Future Value of \$150,000 in three years – the investor's time frame. If the remaining US\$18,555.51 was invested in the Scotiabank *Asset Management Service* Balanced Income and Growth Portfolio*, in the year ended December 31, 2007, the combined return for these investments would have been US\$173,348.64.

By comparison if the full \$150,000 had been invested in a US dollar – denominated investment earning 4.5 % for three years, it would have grown to US\$171,174.92. Using the *Principal Plus* strategy, the investor would have earned an additional US\$2,173.72 over the 3 years of the investment.

The effects of foreign exchange rates and inflation trends

| as at December 31, 2007 | USA | Jamaica | Trinidad & Tobago |
|---------------------------------|--------|---------|-------------------|
| US\$ at Dec. 31, 2006 | \$1.00 | \$67.01 | \$6.33 |
| US\$ at Dec. 31, 2007 | \$1.00 | \$71.09 | \$6.27 |
| Inflation Rate in 2007 | 2.9% | 16.8% | 7.6% |
| % Loss/Gain of Purchasing Power | -2.90% | -22.89% | -6.65% |

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

Stay invested to ensure long-term success

As we know from recent events, market fluctuations happen because stock prices tend to follow the economy, cycling through highs and lows that reflect good times – job expansion, rising profits and consumer confidence – and economic slowdowns, which may bring rising unemployment, inflation and general consumer concerns.

No doubt, life as an investor would be easier if we could predict just how the markets will behave but, unfortunately, in reality it's impossible to know when and by how much stocks will rise and fall, or even which asset classes will be the top performers in a given year.

While anxious investors may be tempted to not invest at all in turbulent times because of fear the market may drop, sitting on the sidelines could mean that inflation is outpacing the

growth of your hard-earned savings.

At the same time, trying to time the market – moving in and out in an attempt to find the times when markets will experience downturns and recoveries – can also be detrimental to your long-term financial health.

In fact, using a leading stock market index, S&P 500, for example, in the 25 years from July 1, 1982 to June 29, 2007, an investor who stood their ground and stayed invested was the most successful, earning more than three times what an investor earned when he or she missed even the best 30 days in the market. In fact, missing even the top 10 or 20 days in the market would have resulted in significantly lower gains.

So, although sharp changes in the markets can be unsettling, it helps to remember these peaks and troughs are

“Markets are up 70% of the time and down 30% of the time, therefore if you are in it for the long term, you are right 70% of the time.”

*Eric Kirzner,
legendary investor, author and
financial guru*

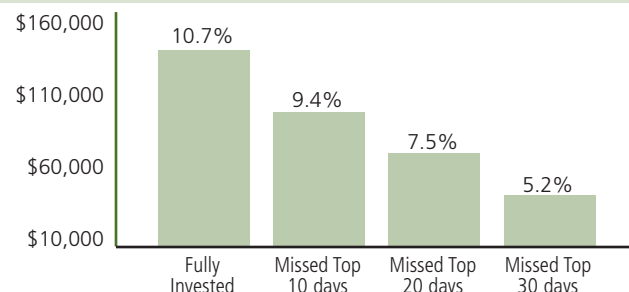
part of the natural market cycle. And while no one can consistently predict market movements, we know that, despite short-term volatility, markets have consistently gone up over the long term. Building a well-diversified portfolio that addresses your personal investment objectives, including your time horizon, offers the greatest potential for overall investment success.

Did you know?

The S&P 500, a stock market index containing the stocks of 500 large companies that trade on the two largest US stock exchanges, grew at an average compound rate of 10.7% each year from July 1, 1982 to June 29, 2007. During that time the gains accounted for by the 10, 20 and 30 best-performing days would have resulted in \$10,000 growing as follows:

| | |
|---------------------------------------|----------------------|
| IF YOU STAYED INVESTED: | \$ 138,289.95 |
| IF YOU MISSED THE TOP 10 DAYS: | \$ 104,541.44 |
| IF YOU MISSED THE TOP 20 DAYS: | \$ 70,471.90 |
| IF YOU MISSED THE TOP 30 DAYS: | \$ 45,196.39 |

**Value of \$10,000 invested in the S&P 500 Index
July 1, 1982 to June 29, 2007**



Important information about Scotiabank Mutual Funds is contained in the Funds' prospectus. Copies are available from Scotiabank and Scotiatrust 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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