



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

## ECONOMIC UPDATE

# Rays of light amid the economic thunder

It's been more than one year since deteriorating sub-prime mortgages in the US and the securities built on these loans initiated one of the largest financial crises in decades.

Today, the health of many companies exposed to these mortgages is greatly damaged. Amid mounting worries and despite urgent moves by the US Treasury to rescue these firms and stabilize markets, September saw the failure of some financial giants in the US, leaving no doubt the magnitude of the crisis.

With headlines continuing to impact equity markets, predictions for slower economic growth is on the horizon for many developed nations as Scotiabank Economists anticipate a long and winding road to overall recovery.

Yet even as the economic thunderstorms including dropping oil prices, inflation and falling house prices, continue to challenge investors, there is good news.

Although they face slowing demand from the developed world, China, India, Russia, Brazil and other emerging markets will continue to expand, but at a slower pace, thanks partly to strong demand within their own markets. As well, although problems in the US are affecting markets worldwide, in reality, some pockets of the global economy, are generally thriving.



Canada, for one, has been prospering from global demand for raw materials and energy, two key sectors in that nation's economy. Moreover, led by its world-class retail banks, investment firms and insurers, Canada's financial services sector, which comprises more than 25 per cent of the country's economy, has largely sidestepped the global downturn in this industry.

This is based on generally low exposure to US sub-prime mortgages and the securities issued on these defaulted loans, and on strong adherence to conventional mortgage practices and overall Canadian banking conservatism.

The present strength of these sectors underlines the enduring reality of market cycles. Choosing high-quality investments and diversifying one's holdings, not only among asset classes but also by industry sectors and by geographic regions, remains crucial. Inside, we outline some easy-to-implement strategies that can help you to make the most of volatile market movements.

## In this edition

**In these times** of slower economic growth and highly volatile markets, it's more important to be aware of the prospects presented by current conditions than to focus on the turmoil. So, while the sharp market movements of late may be unsettling, as any successful long-term investor can tell you, the key to success is to recognize the opportunities highlighted by these short-lived ups and downs. With their long-term approach and emphasis on high-quality investments, for example, the Scotiabank growth funds are well positioned to benefit from the prevailing market volatility. In this edition of *investment advisor*, learn how you can take advantage of Scotiabank's wide-ranging expertise.

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## Why diversification is so important: Finding areas of opportunity

At any given time, prospects for the global economy vary by industry sector and by country. Scotiabank believes the key to successful investing is to own a diversified portfolio of strong companies across a number of regions and business

sectors. The accompanying portfolio breakdowns illustrate just how Scotiabank growth funds, each with its specific geographic mandate, are positioned for long-term growth by providing diversification across a range of industry sectors.



**Industry sectors move in cycles dictated largely by the overall economy. While different sectors benefit from different stages of the economic cycle, expert management and diversification position the Scotiabank growth funds for overall long-term growth.**

### Canadian Growth Fund

Sectors:	Fund %	Benchmark %
Financials	32.4	31.3
Energy	28.4	29.2
Materials	14.4	16.7
Telecom	6.1	5.4
Industrials	6.0	5.3
Consumer Discretionary	5.3	4.1
Information technology	3.9	3.6
Consumer Staples	2.8	2.5
Utilities	0.7	1.6
Health Care	0.0	0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Canada has prospered from its role as a major commodity producer, its strong fiscal position and its world-class financial services sector. Scotiabank Canadian Growth Fund is weighted in Financial Services – an industry in which the acumen of Canadian companies has led to relative strong long-term performance on world markets – and in Energy and Materials – two sectors that thrive thanks to global demand.

### US Growth Fund

Sectors:	Fund %
Information Technology	15.68
Financials	15.57
Health Care	13.32
Energy	13.07
Consumer Staples	13.00
Industrials	10.91
Consumer Discretionary	8.40
Utilities	3.64
Materials	3.22
Telecommunication Services	3.19
<b>Total</b>	<b>100.0</b>

Imagine being able to benefit from the performance of some of the largest, most successful companies in the world! Scotiabank US Growth Fund offers exposure to the most widely diversified market index of the world's biggest economy. Many of these companies, such as Johnson and Johnson, IBM Corp. and Microsoft Corp., do business internationally. With global client bases and worldwide revenues, they have sustained growth despite the recent US economic slowdown.

### Global Growth Fund

Sectors:	Fund %	Benchmark %
Financials	25.16	21.59
Energy	15.76	11.59
Materials	10.86	6.43
Consumer discretionary	10.21	9.12
Health care	9.18	10.46
Consumer staples	7.93	10.28
Information technology	7.49	10.57
Industrials	5.56	10.80
Telecommunication services	5.24	4.31
Utilities	2.61	4.85

Recent events underline the importance of allocating your investments among various countries and economies. Scotiabank Global Growth Fund maintains exposure to a broad range of high-quality global businesses covering the major industry sectors.

## Understanding Investment Styles

**Fund managers use different approaches to choosing investing. Following are some key definitions to help you understand how the Managers overseeing the Scotiabank growth funds add value through professional research and expertise:**

**Market index:** A measure of how a market is doing based on how component securities perform. For example, the Standard & Poor's 500™ Total Return Index (S&P 500) tracks 500 of the largest, most widely traded US stocks and serves as a representative of the US economy. As such, market indices serve as benchmarks for fund performance. Scotiabank US Growth Fund, for example, aims to mirror the performance of the S&P 500 by holding proportionate weights of the stocks that comprise that Index.

**Neutral weight:** Allocation of a mutual fund's assets to mirror as much as possible the weightings of the component stocks in the fund's benchmark. Consequently, a fund that maintains its portfolio at neutral weight will achieve returns that are very much like the performance of its target Index.

**Overweight:** A fund manager may decide to allocate a greater proportion of fund assets to certain stocks or to a certain sector of the economy than is represented in the Index. A decision to overweight a particular business sector is generally based on economic trends and, in particular, a positive outlook for that sector.

**Underweight:** Based on the outlook on the economy or on poor prospects for a certain industry sector, a fund manager may choose to hold a smaller amount of a particular stock and/or sector at a given time than is represented in the Index. In that case, the Fund is said to be under-weight the Index in terms of that sector.



## Scotiabank Asset Management Service

With built-in diversification and expert management, Scotiabank Mutual Funds offer a simple way to ensure your investments stay allocated to benefit from the economic cycle. What's more, Scotiabank Asset Management Service (AMS) can help establish and maintain a suitable allocation by asset class and across various countries and industry sectors, based on an understanding of your goals, your time horizon and your risk comfort level. Speak with your Scotiabank Representative today to find out how to get Scotiabank Mutual Funds and Scotiabank AMS working for you!

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

# When does opportunity knock?

As global markets remain under pressure there has been a lot of talk about the threat of recession, and “bear markets”. While it’s justifiable to be concerned about possible downturns in the economy, historical market behaviour may provide some guidance and reassurance to nervous investors.

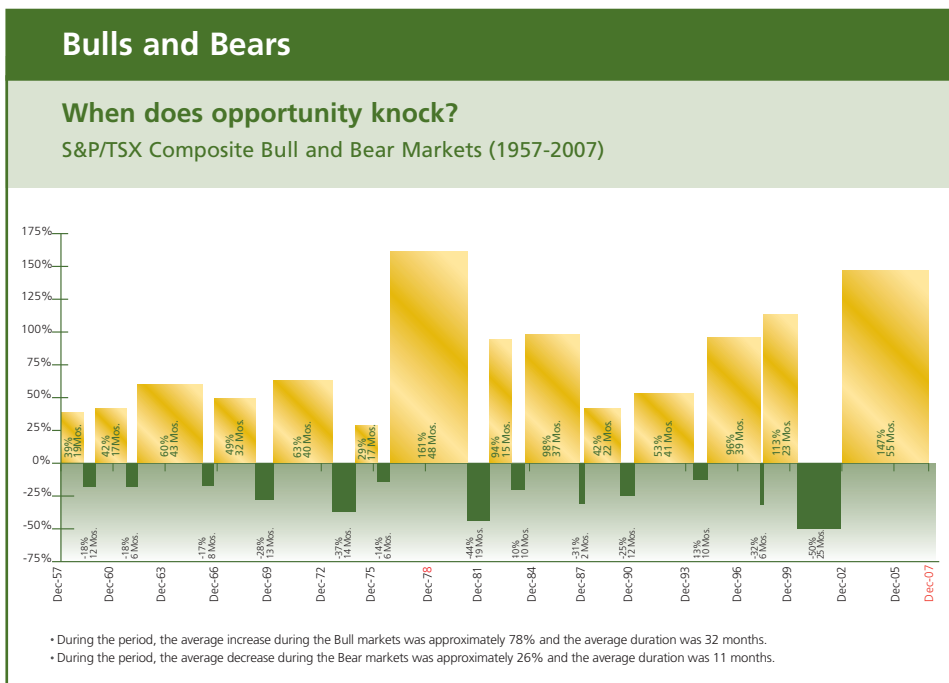
A look at the S&P/TSX Composite Index, the major market benchmark for the Canadian economy, from 1957-2007, shows that bull markets, periods when stock prices are rising, last significantly longer than the episodes of market

declines, or bear markets. In fact, while bear markets in this 50-year period lasted an average 11 months and saw declines of 26%, bull markets during the same period lasted almost three times as long, 32 months, with average market increases of 78% far outstripping any preceding losses.

Importantly, deeper analysis of the historical data points to even stronger reasons for investors to ride out market turmoil. A key finding is that, in the transition from bear market to bull market, the most dramatic market gains

tend to happen quickly and over a short period, often a matter of a few key days. Missing those days could mean missing out on the biggest gains of a particular bull market.

From another perspective, this means investors who stick to their investment plans when faced with market volatility are more successful over the long term than investors who don’t invest at all because of uncertainty about the economy or who attempt to time the highs and lows of the cycle.



### Opportunity knocks at good times and bad times

Peaks and troughs are natural in the business cycle and stock prices often follow these ups and downs. Bull markets occur in an expanding economy, when companies are more profitable because of high consumer confidence and investors are more apt to buy into the stock market and drive up prices. Conversely, bear markets refer to periods of falling stock prices, a signal that the economy is slowing, investor confidence is low and demand for goods and services – which are the foundation of business – is declining.

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](http://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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