

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



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

Emotional rescue: Don't let sentiments derail your plan

Downturns represent buying opportunities

History shows that stock markets move in cycles, going through routine peaks and troughs that generally reflect the health of the wider economy. At the same time, experience tells us that investors travel through a range of emotions tied to these ups and downs in the market. These feelings, such as the insecurity and anxiety you may be feeling in these times of market turmoil, are certainly natural to human nature.

However, when emotions dictate investment decisions, the results can be disastrous for your investment plan. Here's an explanation:

The accompanying chart shows the progression of market and the investor emotions that usually go along with each stage. At low points in the market, stock

values are depressed and attractively priced, while demoralized and anxious investors are averse to investing. In fact, although selling one's investments is the worst possible move at such times, it's just what many investors do.

As the market starts to recover, there are still plenty of bargains in the market but still-doubtful investors continue to resist investing. Unfortunately, only when markets are expanding and stock prices are going up does a willingness to invest re-surface. Even worse, investors tend to jump into the market when stock prices are at their peak – and just when financial risk is greatest.

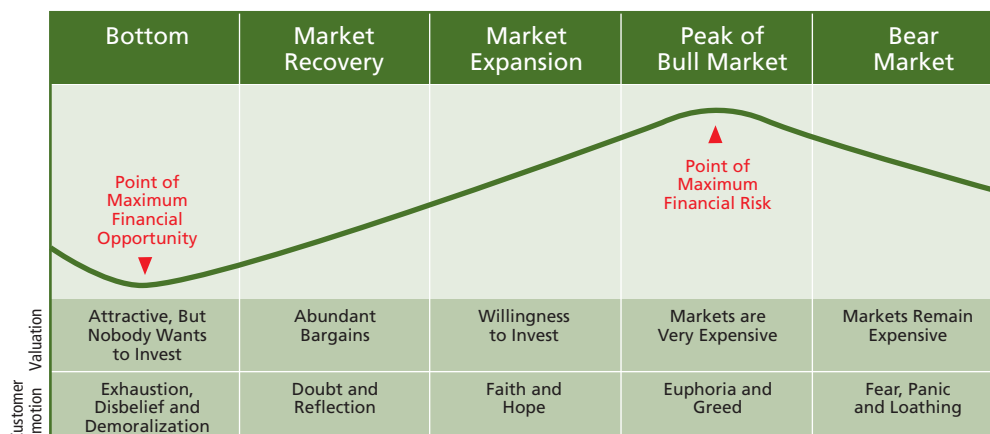
The lesson? It's an unfortunate truth that emotions often lead investors to buy when stocks are expensive and sell at a loss when markets are at the bottom. Emotional investing – reacting

with fear and panic to market downturns, for example – can greatly harm your financial future.

Conversely, some of the greatest investors in history have built their successes by identifying sound, well-run businesses at times when those companies are being shunned by the market. Recently, the large stakes in General Electric and Goldman Sachs purchased by legendary US investor Warren Buffett may offer examples of this focus on intrinsic value over emotions when it comes to investing.

Rather than riding the cycle of market emotions, ensure your portfolio addresses your investment goals and your tolerance for risk, and is properly diversified to reduce risk and to benefit from downturns.

Cycle of Market Emotions



Source: Darst, David M. (Morgan Stanley and Companies, Inc.), *The Art of Asset Allocation*. McGraw Hill, 2003.

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.

*Standard and Poor's, S&P and S&P 500 are trademarks of The McGraw-Hill Companies and have been licensed for use by The Bank of Nova Scotia and its subsidiary companies.

*Trademarks of The Bank of Nova Scotia, used under licence.

We want to help!

Want to learn more about the skilled investment professionals overseeing Scotiabank Mutual Funds? It's also the perfect time to explore strategies that can help you stay the course in these turbulent times. Your Scotiabank Investment Advisor is here to help. To arrange a meeting, call or visit your Scotiabank branch today!

NEW BEGINNINGS

Ready for Recovery

Ahead of us lies a fresh new year, full of possibilities for the future. And along with the resolutions that come naturally at this time, for many people there are expectations surrounding a new administration in the United States government – and hopes for positive change in the world economic situation. Indeed, now may be the perfect time to take stock of our personal situations and reestablish our own financial priorities.

For many of us, one question remains top of mind as we face the continuing financial crisis. That is, why do events in one nation have such wide-reaching impact on the world's financial markets and the global economy? The answer lies in globalization, a concept that will also play a key role in economic recovery.

Problems stretch beyond the US

In the world today, many economies benefit from an unprecedented level of interaction among nations. Commodities, services, labour, and even ideas, move more freely across international borders now than ever before.

This globalization of economies has also created a greatly integrated financial system. What started as a problem of questionable home loans and consumer debt in the US – the world's leading economy – spread easily to become a problem of overall liquidity in world financial markets.

As we know only too well, these tighter credit conditions have brought extraordinary levels of uncertainty and a historic downturn in equity markets around the world.

Globalization key to positive change

Now, many central banks are also cooperating to address problems of liquidity and avert a deepening global recession. For some governments, these steps have included injections of cash directly into their nations' banks in order to free up capital, bolster lending to consumers and stimulate the economy. As well, interest rate cuts – including a coordinated cut in rates on Oct. 8 by the world's leading central banks – are among the monetary stimuli being implemented.

Further, the *G20 Leaders Summit on Financial Markets and the World Economy* on Nov. 14 and 15 brought together decision-makers of the industrial world to address the very issue of international financial stability.

It's clear that, while a worldwide system may have contributed to the speed and size of the recent downturn, a global approach will also contribute to the solution. Moving forward, these concerted efforts can be expected to strengthen equity markets and improve the overall global financial system.

In this edition

With volatility continuing to dominate stock markets, most of us are finding it difficult to make sense of the endless stream of economic news that accompanies the ongoing turmoil. But with our financial futures at issue, it's important to understand the events affecting the economy and markets. In this edition of *investment advisor* we look at the forces underlying the current global economic crisis, consider the implications for world markets, and plan for what we can do to weather the storm.

contents

HAVE CONFIDENCE

Earned trust page 2

Whole greater than sum of parts pages 2, 3

Record of success pages 2, 3

Behind the headlines pages 2, 3

SEIZE OPPORTUNITIES

Emotional rescue page 4



Earned trust

Scotiabank has a long history of strength and dependability

We all know how important it is to be able to trust the people around us. Especially in times of uncertainty, the peace of mind that comes with having partners and associates you can count on is immeasurable.

At Scotiabank, we value the trust of our customers and are committed to earning and keeping that trust.

With a long and distinguished history that dates back to 1832, Scotiabank now stands as one of North America's premier financial institutions, offering a diverse range of products and services that covers personal, commercial, corporate and investment banking. The Scotiabank Group is highly regarded worldwide, serving approximately 12.5 million customers in 50 countries, including Mexico and nations in Asia, the Caribbean, and Latin and South America.

Building on a solid foundation

More than being a familiar name, however, in difficult times Scotiabank has proved its dependability. Currently, a stellar reputation and a sound base have helped us fulfill our ongoing commitments to our customers.

With a global economic crisis

Did you know?

Scotiabank opened an office in Kingston, Jamaica in 1889, before opening an office in Toronto, Canada, in 1897.

(which has been linked to US banking practices) destabilizing many aspects of the financial system, Canada's banks have remained relatively solid. In fact, Canada's banking system is largely recognized as a model of sound and prudent regulation and is growing at a faster rate than its global peers. As Canada's most international bank, Scotiabank holds an important place in a banking sector that is considered one of the healthiest in the world.

Putting customers first

How does Scotiabank maintain its long-standing pledge to help customers become financially better off? On a day-to-day basis, we create financial solutions that reflect the times and respond to the needs of our customers. From a wider perspective, throughout our long history we have led the way on many industry initiatives to improve transparency and maintain the best interests of customers. Rigorous risk management and high standards, for example, are fundamental principles that not only underlie the products offered by Scotiabank, but also reflect the philosophy that informs everything we do.

Whole greater than sum of parts

Look to Scotiabank Portfolios to ease volatility and boost potential returns

There's no denying how difficult a time it has been for investors lately. In 2008, as all major economies struggled with the global financial crisis, equity markets posted universally dismal results.

But despite broad market volatility, performance among asset classes varied considerably, demonstrating once again that markets do not move in tandem.

While investors should bear in mind that equity market volatility decreases

over time, recent short-term market movements also underline an enduring investment principle – that a properly diversified portfolio serves to smooth out the risk of market volatility. That truth is borne out also by the performance of the Scotiabank Asset Allocation Portfolios.

The six Portfolios hold varying proportions of Scotiabank Mutual Funds, with the specific asset weights in each Portfolio reflecting a different

set of investment objectives and investor risk tolerance. While each Fund in itself represents a high-quality investment, the professionally combined portfolios highlight the value of asset allocation. In 2008, the strategic combinations of asset classes in the Scotiabank Asset Allocation Portfolios helped reduce the volatility that equity markets and the individual growth-oriented Scotiabank Mutual Funds experienced.

Behind the headlines: Uncovering opportunities

There's no denying the challenges posed by a deepening global economic slowdown. But while the bad news and alarming headlines of late certainly seem all encompassing, the truth is, opportunities prevail and promising prospects exist in spite of volatility and general stock market weakness.

Take, for example, consumption. Although it's natural for consumers to cut spending when the economy is slow, the retail industry also encompasses companies that focus on consumer

staples – goods that will continue to be in demand no matter what the existing economic conditions.

So, while manufacturers of luxury goods, such as high-end accessories and leisure equipment, may indeed suffer in recessionary times, food and drug retailers are less likely to be seriously affected. In fact, well-run companies in these sectors could even thrive despite a pullback in economic growth. What's more, some of these stocks may be promising since they may be a good value

because of investor sentiment. (See page four for a discussion of investor emotion and the market.)

By holding a professionally managed mix of investments that are properly diversified across various industry sectors, you can be confident your holdings are positioned to take advantage of such economic realities. That way, you can ignore the daily fluctuations and stay focused on the long-term prospects for growth.

Want to boost the potential long-term returns from your Asset Allocation Portfolio?

Take a look at Scotiabank Asset Management Service. On top of the professional management offered by Scotiabank Mutual Funds and the important level of diversification found in each Scotiabank Asset Allocation Portfolio, Scotiabank AMS ensures that your carefully constructed portfolio mix isn't skewed by market changes. Each quarter, AMS rebalances asset weights, adjusting back to target any allocations that have increased or decreased by three per cent or more. That ongoing attention ensures that subscribers maintain the optimum mix needed to maximize potential returns over the long term.

Time to talk?

Periods of market volatility have historically been short-lived when compared to the upward trend of stock markets over time. Ensure your portfolio is positioned to take advantage of this positive trend – consult with your Scotiabank Investment Advisor today!

Record of Success



A few of our many achievements over the years

1832	1880	1906	1954	1961	1981	1998	2004	2008
The Bank of Nova Scotia is the first public bank in Halifax, Nova Scotia, and the first in British North America with a charter that provides shareholders with double liability protection .	The Officers' Pension Fund established by Scotiabank is among the first staff pension plans in North America.	Scotiabank becomes the first Canadian bank to have its accounts audited by an independent firm.	Scotiabank's Personal Security Program is the first life-insured savings plan offered by a Canadian bank.	Scotiabank is the first Canadian bank to appoint women to the position of Bank Manager.	Scotiabank becomes the first major Canadian bank to connect virtually all domestic branches to an online computer communications network .	Scotiabank becomes first financial institution in North America to have a department registered to ISO 9000 quality management standards .	Scotiabank named the first non-British chair of the London Gold Fixing since Fixing was implemented in 1919.	Scotiabank selected as Bank of the Year 2008 in Jamaica by Latin Finance magazine, and in Canada, Belize, Costa Rica, Guyana, Trinidad & Tobago and Turks & Caicos by The Banker magazine.