



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

ECONOMIC UPDATE

Stimulus gets a boost

Obstacles remain but initiatives pave the way for turnaround

The seriousness of the global recession and current market downturn is unquestionable. In March, the US economy declined for the fourth time in the last five months, making it clear the recovery will be neither easy nor speedy.

But support for an economic turnaround is strong and there are reasons to be optimistic. Current economic stimulus plans – including huge public spending programs, outright financial support to banks and other key industries and tax cuts – by the US and other nations are also unprecedented in scope.

In the US, President Obama's fiscal stimulus package will exceed US\$800 billion, with an additional US\$700 billion allocated to the Troubled Asset Relief Program. These cash infusions are focused on consumer confidence, job creation and stimulating spending – all factors designed to stimulate economic activity and, ultimately, revive the economy.

Both the US and Japan have also put in place near-zero policy-setting interest rates, and the European Central Bank and the Bank of England also reduced their rates early in January and are working to shore up their economies. More recently, core emerging-market countries, including China and Brazil,

have also followed these recession-fighting trends to cut lending costs.

There are also encouraging signs of improving corporate responsibility. Recent months have seen company executives of some leading global companies agree to pay-cuts this year; some have even given back portions of previous compensation as they recognize the burden of the current economic situation and work to hasten the recovery process.

What you can do now

In truth, there's nothing typical about current economic conditions. Even as the waves of unprecedented and decisive government action take hold, Scotiabank economists believe economic indicators will show the greatest strain over the next several months. Before making any financial decisions, the most important step is to work with your Scotiabank Investment Advisor to ensure your investments continue to meet your needs and, just as important,



are positioned to benefit from the next business cycle.

In this edition

Investors searching for signs of improvement may be discouraged by ongoing market turbulence but there are reasons to expect the return of favourable economic conditions. Huge interest rate cuts, unprecedented monetary injections and support for troubled businesses are some of the important steps being taken by governments. For nervous investors, it's important to bear in mind that growth is an undeniable part of the normal business cycle and, while a turnaround will take time, it will undoubtedly come. In this edition of *investment advisor*, learn about the signs to watch for in recovery and, more important, how to determine the best long-term strategies for you in these challenging times.

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Signs of the times?

Indicators tell the tale of economic health

To most of us, the world today is more complex than ever before. Political, economic and societal changes all seem to happen at greater speed, while the barrage of daily news grows more intense and, at the same time, more confusing. But even with so many factors to consider, the underlying question is simple: What do these developments mean for our day-to-day lives and especially for our financial well-being?

To help answer that question, we offer the following discussion of an issue that is front and centre in these challenging times – the state of the economy and the ways in which we measure its progress.

The economy and you

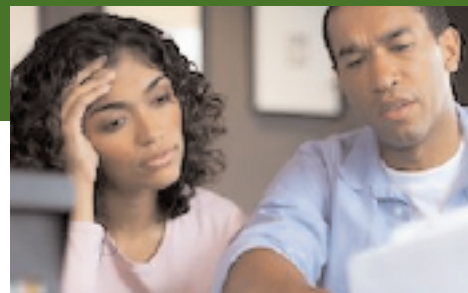
We all know that economic growth is important because it underpins our overall standard of living. As measures of how our economy is doing, *economic indicators* offer useful perspectives on the business cycle, including current and past trends, and predictions of future performance.

Economic indicators tend to reflect specific consumer and business activities for a country or economy, and can provide support for investment decisions. For the Portfolio Managers of the Scotiabank Mutual Funds, attention to economic indicators is important in identifying trends and changes in the direction for the economy as a whole and for individual sectors and industries. Such changes can be crucial in making investment decisions for the Funds.

Closely watched indicators include: Gross Domestic Product (GDP), which is a broad measure of an economy, as reflected in the total dollar value of all goods and services produced over a specific period of time; the rate of inflation; unemployment and employment rates; and the central bank's key lending rate.

Types of indicators and how they take the pulse of the economy

The three types of economic indicators are: leading indicators, which turn downward before a recession and upward before an expansion, and so precede



and predict the direction of the overall economy; coincident indicators, which change at approximately the same time and in the same direction as the economy, so reflecting the current economic condition; and lagging indicators, which change after the general economy changes.

On the whole, economic indicators can give a good idea of how the economy is doing and where it may be headed. For example, construction of new housing (as indicated by the number of new building permits for residential buildings – a leading indicator) may be, in itself, a small part of the overall economy, but new homes always lead to purchases to furnish those homes, thus boosting retail activity and, ultimately, economic growth. At the same time, the level of home purchases also points to consumer confidence about the future. While economic indicators alone do not bring total clarity in understanding economic health they certainly represent an excellent starting point for investors to begin to make sense of current economic conditions.

Commonly used economic indicators

Leading indicators	Coincident indicators	Lagging indicators
Employment in business and services	Gross Domestic Product (GDP)	Private sector plant and equipment spending
Number of manufacturers' new orders for consumer goods and materials	Industrial production	Business loans and interest on such borrowing
Number of new building permits for residential buildings	Personal income levels	Labour costs
Furniture and appliance sales	Employees on non-agricultural payrolls	Unemployment rate
Stock market indices; stock markets tend to recover before the overall economy does	Manufacturing and trade sales	Inventory levels

True value

Opportunity amid the turbulence

Value investors look for companies that are out of favour or overlooked by the market, and have good potential to make their share price grow over the long term.

AllianceBernstein L.P. has been managing global value equities since 1992 and has overseen Scotiabank Global Growth Fund since 2003. The company believes current volatility in equity markets is creating the best value opportunities in many years. In fact, says AllianceBernstein, stocks in many industries have plunged indiscriminately, creating classic value opportunities for long-term investors. And when growth prospects become clearer, those companies whose stocks have been unjustifiably punished are likely to rebound sharply.

The AllianceBernstein Investment Team relies on in-depth research to identify out-of-favour, undervalued securities in global markets. For example, as share prices become depressed from recent earnings disappointments or other negative news, strong emphasis is placed on stocks with recovery potential and these businesses are typically held for the long term. They are sold when judged to be fairly valued or if subsequent research finds they no longer represent value investments.

With more than four decades of investment experience, AllianceBernstein has successfully navigated past economic downturns and knows well the importance of discipline – even when this means taking a contrarian position and going against the prevailing market consensus.

Low rates affect money market funds

Lowering interest rates is one important strategy currently being employed by governments in order to encourage consumer spending and spur economic activity. At the same time, however, it's important for investors to understand how the current rate environment is affecting certain types of investments.

With interest rates at historic lows and investors flocking to securities deemed to be safe from market fluctuations and credit risk, current yields on US Treasury bills, which are issued directly by the US government, are hovering near zero. Low yields in money

market mutual funds are due largely to the attractiveness of these ultra-safe assets at this time.

This situation has created a unique challenge for money market mutual funds, such as Scotiabank Money Market Fund, that look to these safety oriented securities as staple holdings. Fund managers are employing some exceptional strategies to keep the value of their portfolio yields from falling below zero. To prevent Net Asset Value Per Share (NAVPS) from sliding downward, some fund companies are temporarily absorbing management fees and expenses.

What you should know about value investing

Price-earnings (P/E) ratio: Also known as the price-earnings multiple, this statistic indicates how expensive a stock is when compared to P/E of other stocks. It is calculated by dividing a stock's current share price by its annual earnings per share.

Intrinsic value: What a stock is really worth, as opposed to its share price in the market. The calculation used by investment analysts to arrive at a stock's intrinsic value takes into account several key financial ratios, including the share price, P/E ratio and expected earnings per share.

Contrarian investing: Buying or selling investments when the majority of market participants are doing the opposite. Generally, this means a focus on finding value and going against crowd behaviour. Optimism at the peak of a bull market, for example, tends to lead to popular yet overpriced stocks, while pessimism can drive a stock's price lower than its true worth given its prospects for profitability.

What happens next?

Recent market conditions are indeed challenging. Still, the low yields – and even the potential for negative yields – we are seeing currently on T-bills and the money market mutual funds that hold these assets, bear out the principle that low-risk investments are generally accompanied by low rates of return.

Low rates are expected to continue as governments work to overcome the financial and economic crises. However, yields on Treasury bills are expected to rise as overall market conditions improve.

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

Reduce uncertainty with these simple steps

Like many investors today, you're probably unnerved by the enormity of the current crisis and anxious to protect your investments. But economic uncertainty also presents an excellent opportunity for a fresh look at your situation. Here are some tips for reassessing and, if necessary, renewing your plan.

Clarify your personal situation:

After taking a step back to look at your situation, you may find you're still on track to reach your investment objectives, or discover your goals have changed significantly. You may even realize you have less emotional tolerance for the ups and downs of the market than you thought. Depending on what you learn about yourself, it may be necessary to adjust your investment mix.

Don't act just because you feel you should: It's natural to want to do something when markets are in turmoil.

Getting out and sitting on the sidelines, for example, may be appealing. However, history shows doing so could end up costing you in the long run – remember, down markets have always recovered well beyond their depths. Instead of reacting instinctively, take time to reassess your plan, bearing in mind that a long-term perspective may be more important now than ever.

Consider what actions would truly be beneficial in light of current market conditions:

Only you can determine what's best for you at this time. If, for instance, you are losing sleep worrying about your investments, then it may help to adjust your portfolio to better suit your tolerance for risk. On the other hand, your time horizon, risk tolerance level and personal financial goals may indicate that you might take advantage of the opportunities presented by the current market downturn.

Rest easy with AMS

Turbulent markets have highlighted the concept of risk lately but that doesn't mean it has to be an overriding worry. The goal of each professionally designed Scotiabank Asset Allocation Portfolio is to match your **risk tolerance** – which indicates your comfort level with potential short-term declines in the value of your investments – with an appropriate **mix of investments**. Even better, using Scotiabank **Asset Management Service** to systematically rebalance your portfolio holdings means your asset mix won't be skewed by market movements.

Investment Selector: Take these simple steps to ensuring the best investment mix

When do you need the money you have invested? How do you feel when you hear news of yet another market downturn affecting your investments?

Peace of mind and greater confidence in your investment plan are not as difficult to achieve as you might imagine.

Since asset mix is the most impor-

tant determinant of long-term investment returns, Scotiabank *Investment Selector* works to balance your financial goals with your emotional needs, in the process of finding the combination of investments that's best for you.

Guided by your Scotiabank Investment Advisor, you complete a short

and simple questionnaire to clarify your current investment objectives and identify your investor profile, including your risk tolerance, time horizon and investment objectives. Then, after reviewing your current financial position and existing investments, you arrive at a recommended asset mix – it's that simple.

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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