



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

ECONOMIC UPDATE

Strong hopes for global recovery

But temporary setbacks may occur as the economy returns to health



As we turn the page on a year of challenges and uncertainty, confidence is growing that economic recovery is real and widespread. With lessons learned from this difficult period, investors have an excellent opportunity to assess the impact of current trends on financial markets and, consequently, how these events will affect their financial decisions.

Current positive developments include a revival in consumer demand that is spurring increases in production as companies react to better sales prospects. In Canada, for example, “The rally in the economy is being driven by the need to replenish inventories, which in turn, is causing many industries to ramp up production after severe cutbacks during the weakest months of the recession in late 2008 and the first

half of 2009,” says Scotiabank Chief Economist Warren Jestin. He points to the auto industry as one that is currently gearing up for an upswing and also the impact of already announced government spending on infrastructure.

As well, the fact that China and other emerging nations have reestablished a pattern of expansion is fuelling higher energy and commodity prices – a trend that began in late 2009 and continues to grow.

Yet the recovery is uneven and there are good reasons for caution. For example, Scotiabank economists note that important economies such as the United States, some major European nations and Japan, are still struggling to recover as they face the challenges of unprecedented levels of unemployment, weak consumer confidence and the prospect of ongoing and prolonged weakness in key sectors such as housing.

Indeed, says Stephen Uzielli, Portfolio Manager with ScotiaMcLeod’s Portfolio Advisory Group, the same cautious optimism should be applied to equity markets. (ScotiaMcLeod is the brokerage arm of Scotiabank in Canada.) Though market signals show the worst is over, “mood swings” – overreactions on the downside, then the opposite – will be at play, says Uzielli, who cautions, “There may be pullbacks along the way.”

In this edition

There are good reasons for optimism as we begin the new year – we are leaving behind one of the stormiest periods in economic history and the consensus is that a general upswing in the global economy and in financial markets is underway. Yet even with a brighter picture in the forecast, investors continue to face a number of significant challenges. This issue of *investment advisor* examines some of the pressing issues for investors at this time, including what to expect from financial markets in the near future and how to find the best approach to investing now.

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Investing in you

Difficult lessons have been learned in the recent recession and the new year brings a resolve to take greater responsibility for our financial future. The good news? Investing in yourself now is the best thing you can do to build long-term success, and getting started is easier than you think.

A new year, a fresh start. The recent bumpy ride in financial markets has proved that the road to a secure financial future doesn't follow a straight line. But that doesn't mean your goals are out of reach or even that you have to take a sophisticated approach in order to succeed at investing. In fact it come downs to a commitment to investing in you – to staying focused on your goals and creating a plan to reach them.

Whether it's a secure retirement, a well-rounded education for our children or grandchildren, or support for our parents, we invest in order to meet our responsibilities, not just for the sake of making money.

Investing in you begins by taking the time to think about your goals – whatever they may be – then building a plan to reach them. Four key cornerstones can provide a solid foundation for any intelligent investing plan.

Invest early

Look at time as an asset. The sooner you start investing, the longer the money will have to grow. And the longer you invest, the more time you have to ride out inevitable ups and downs on the way to meeting your financial goals. Compounding growth uses the impact

of time and the effect of reinvesting the earnings from your investments to multiply your investment returns. The difference in long-term results for someone who delays investing and someone who invests sooner is so dramatic that it's easy to see why some call it "magic."

Invest regularly

You don't have to have a lot to start investing – it's more important to just get started. For most, it makes sense to start as soon as possible with an amount you can afford, then continue investing manageable amounts on a regular basis. Not only is it easier than trying to come up with a larger lump sum to invest, this approach harnesses the power of compound growth to move you more quickly toward your goals. By spreading out your investments over time, you also:

- reduce the risk that you'll invest at the wrong time – when prices are high, for example – or miss good buying opportunities in the market – when stocks are undervalued and

prices are low. From a long-term perspective, regular investing ultimately reduces the impact of unpredictable market fluctuations and can make for more stable average returns from your overall investment.

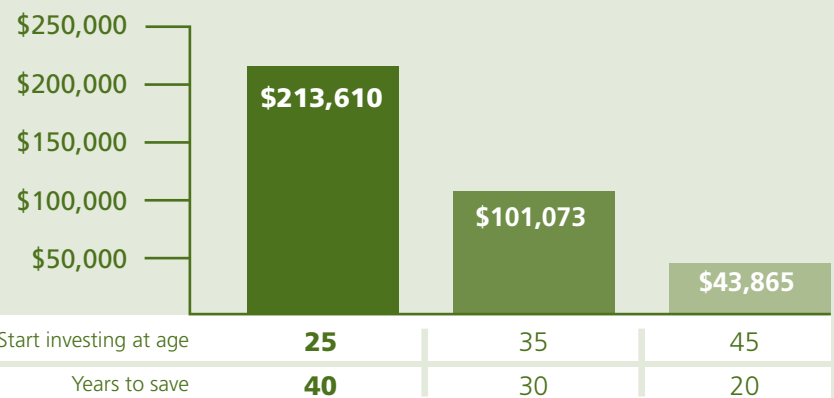
- get the benefit of dollar cost averaging, buying less of an investment when prices are high, and more when they're low. (Think of it as investments on sale!). This could mean a lower overall cost-per-unit compared to a single lump sum investment.

Stay invested

Political and economic turmoil, newspaper headlines, changing interest rates and fluctuating currencies – these are just some of the factors that contribute to market volatility and could undermine our determination to stick with our investment plan. But we know that no one can consistently and accurately predict downturns and upswings, and it can be dangerous trying to time the market. A better approach is to ensure

The effect of time on investing

The earlier you invest, the more you may have later on.



Saving to age 65. Assumes an investment of \$1,000 U.S per year, at the beginning of the year, and an average annual compound rate of return of 7%. Assumed no taxes withheld.

Create a personalized strategy for success with Scotiabank's STEP ONE calculator!

GOALS	SHORT TERM		LONG TERM
	Under 2 years	2 - 5 years	5+ years
Convenient Banking:	\$	\$	\$
24/7 Account access			
Easy and secure banking			
Global access to your cash			
Home:			
Purchase or build home			
Renovate home			
Pay mortgage faster			
Major Purchase:			
Car/Vacation/Travel			
Other			
Children:			
Education			
Business:			
Start own business			
Expand current business			
Retirement:			
Retire early			
Retirement income			
Save more money:			
Improve cash flow			
Get out of debt faster			
Emergency funds to protect family			
Maximize investment results			
Protecting your assets:			
Asset/Income Protection			
Estate Planning			
Insurance (life, family, etc.)			

Proper asset allocation

is crucial to both generating the income you need in the short term and producing the returns you require for your longer-term financial goals.

Scotiabank offers a comprehensive suite of investment products and your Scotiabank investment advisor has the know-how to help create or modify a personalized strategy for successful investing. Start building a portfolio that balances all your financial obligations.

Come in and talk to us!

you've built a solid long-term plan of high-quality investments. That way, you won't be tempted to stray from your long-term plan with every blip in the market.

Diversify

You may not be able to control how the markets behave but by selecting the right mix of investments, you can control the overall risk-return characteristics of your portfolio.

Dividing your assets among cash, fixed-income investments and equity investments is important because each class of asset offers a different level of safety and each can be used to meet different financial needs. For example, money designated to meet your immedi-

ate financial needs, such as regular household expenses is best held in safe, short-term investments, such as savings or chequing accounts. Meanwhile, term deposits, which offer higher interest rates but have set maturity dates, and growth-oriented mutual funds, which offer even higher potential long-term returns but are likely to experience greater fluctuations in value in the short term, are generally the way to go for money earmarked for goals with a longer time horizon, say, three to five years.

In the same way, the portions of your portfolio you allocate to retirement savings, insurance needs, education for your children and grandchildren, and any other long-term financial obligations

must address the time to your goals and the level of risk you're willing to accept in getting there.

Asset allocation describes the process of balancing your portfolio among asset classes in proportions that address your need for safety, income and growth. To further spread out portfolio risk, you can also diversify among investments that represent, for example, companies of various sizes, operating in different industries, and based in diverse regions. Although it's difficult to do as an individual investor, this level of diversification is built into mutual funds, with a specific mix of investments tailored to each fund's investment objectives.

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

Keeping the right mix

Asset Management Service boosts long-term investment returns

Investment success depends on sticking to your investment strategy or adapting your plan as necessary to reflect changes in your personal financial circumstances. While dramatic movements in the market can generate strong emotions, the urge to make changes must be tempered by the knowledge that staying with an intelligent plan is the surest way to reach your goals.

Scotiabank Asset Management Service (AMS) builds on this understanding and on the expertise behind the asset allocation recommendations that stem from each of our six Investor Profiles.

Balancing risk and return

From Preservation of Capital to Aggressive Growth, each AMS Model holds a combination of Scotiabank Mutual Funds, each with a prescribed weighting that match each investor profile. By working with your Scotiabank Investment Advisor, you can determine which AMS Model corresponds most closely with your financial goals and level of risk that's acceptable to you.

A Portfolio for your goals

Our AMS reviews the weighting of all AMS accounts each calendar quarter. If any individual Scotiabank Mutual Fund's

weighting has drifted by 3.0% or more (positively or negatively), the AMS automatically rebalances each Scotiabank Mutual Fund back to its prescribed weight for the defined AMS Model selected for the account. So no matter what the market is doing, your AMS account continues to reflect your risk tolerance and the correct asset allocation to meet your financial goals.

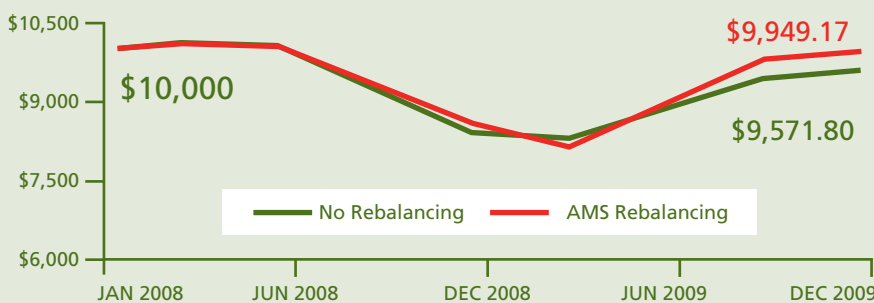
Investing with confidence

Are my goals still reachable? Should I be making changes to my portfolio holdings? How do I take advantage of opportunities in the market now? Considering the period of intense market uncertainty we've just come through, it's not surprising that many investors are starting the year with more questions than answers when it comes to their investment plans.

But reacting emotionally to short-term volatility is not the answer and could cause us to fall short of our expectations in the long run. Instead, take this opportunity to ensure your plan still reflects your financial goals.

Your Scotiabank Investment Advisor can help you assess your time frame, investment objectives and comfort level with risk. After defining your financial needs, you can then select a mix of assets tailored to your goals.

Growth of US \$10,000 – Balanced Income and Growth AMS Model (after deduction of annual fees)



* Please read the prospectus for the Scotiabank Mutual Funds which are used to create each asset allocation model before selecting the Asset Management Service. Share values and investment returns for the Funds within each Portfolio will fluctuate. Past performance is no guarantee of future performance and may not be repeated.



To learn more about the comprehensive portfolio solutions offered by Scotiabank, including our Asset Management Service, contact us at Scotiabank.mutualfunds@scotiabank.com

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