

# Advice Matters

SUMMER 2017

## Are you emotionally invested?

"Common sense is not so common," said French philosopher Voltaire. While traditional economic theories are rooted in the belief that investors make rational decisions using all existing available information, the relatively new field of behavioural finance counters this notion.



Behavioural finance suggests that investors frequently behave irrationally and often against their best interests. Here are three of the most common emotional biases that investors are prone to and what you can do to manage them:

### 1. Mental accounting

Mental accounting explains why some investors tend to compartmentalize their money into separate accounts based on a variety of subjective criteria. It also helps explain why some people will drive across town in order to save \$5 on a tank of gas. Mental accounting can lead to asset segregation; where risk and value are exclusively assigned at the investment and not the overall portfolio level. It's also exhibited by investors who sometimes view their retirement accounts too conservatively and run the risk of encountering a shortfall in retirement savings.

► **What can I do?** Focus on the long run and the big picture. Anxiety over the possibility for short-term losses can cloud your judgment and lead you to limit the growth potential of your savings over the long run.

### 2. Prospect theory

Closely related to the concept of mental accounting, prospect theory contends that losses have more emotional impact than an equivalent amount of gains.\* This may be displayed by selling winning investments too early and holding on to laggards for too long. It's also demonstrated by an innate desire to avoid losses; even if that means choosing not to participate in potential gains.

► **What can I do?** Spikes in market volatility, while unsettling for most, can prompt some to abandon their long-term plan for the short-term reprieve that cash and other liquid investments offer. When the temptation to retreat to the sidelines takes

hold, ask yourself if the event fuelling the downturn changes your long-term goals. Odds are it doesn't. If market volatility continues to be unsettling, a quick fix can be to simply tune out the noise. Investors who tune out the majority of financial news tend to fare better than those who subject themselves to the daily barrage of headlines.

### 3. Overconfidence

It's human nature to be overconfident. One frequently cited study found that 90% of the car drivers in Sweden rated themselves as above-average drivers.\*\* Statistically, you're more likely to be an average driver than an above-average one, even if you live in Sweden.

In the investing world, confidence levels are driven in part by recent market performance. For instance, it's easy to overestimate your risk tolerance, when your immediate frame of reference is a period of equity market gains. Very often

investors who perceive their risk tolerance to be high exhibit much less confidence when faced with market downturns. Fear that others are more knowledgeable can drive a herd instinct, with frenzied selling (during market corrections) or buying (during market bubbles) when it is least opportune to do so.

► **What can I do?** Be realistic to keep your confidence levels in check. When looking at historical returns, don't focus solely on the upside. It's easy to get swayed when your immediate frame of reference is strong returns.

Becoming more aware of how your emotional biases can affect your decision making will equip you to make better investment choices, view your portfolio with less unease and ultimately help meet your financial goals. **Many of us find that this is often easier said than done, but a Scotiabank® advisor can help keep you on the straight and narrow. ■**



\*Source: Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision Making Under Risk," *Econometrica*, 1979.  
\*\*Source: Svenson, O., (1981), Are we all less risky and more skilful than our fellow drivers.

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## RETIREMENT PLANNING

# Choose your own adventure

"You are never too old to set another goal or to dream a new dream."  
— C.S. Lewis



**WE OFTEN THINK** of retirement as akin to reaching a destination – but in fact it's a junction, that forks off into several different paths. The path – or paths – you follow is up to you, and tailoring your financial plan accordingly can help travelling it that much easier.

Let's look at three retirement paths and how they can impact your financial plan:



## The Jet-Setter

Living the whirlwind life of a traveller, this retiree has places to go and things to see. Some might have thrill-seeking adventures in mind, while others would prefer to be laidback, reading a book on a beach in a tropical location. Whether it's smaller, spontaneous jaunts or embarking on a world tour, this retiree's lifestyle and finances need to be flexible.

### Retirement path #1

Living the jet-set lifestyle typically requires a healthy nest egg, so a disciplined savings plan and a focus on **long-term capital appreciation** before retirement are important. While your tolerance for market risk may change in retirement, it's also important to keep an **eye on growth**. With two decades or more of expenses to fund, running out of money could be a real concern. Achieving the **right balance** of stable cash flow, inflation protection and growth potential will be key for the jet-setter.



## The Part-Timer

This retiree finds it difficult to sit still, but not due to wanderlust. Instead, she may decide to pursue the childhood dream of working in a profession that is completely different from the career she had. Or, she may continue to work part-time or consult in the same field she retired from.

### Retirement path #2

For this retiree's finances, the priority might be managing her different cash flow streams to **optimize tax efficiency**. She may continue to **invest in registered plans to age 71** and then withdraw only the minimum amounts as mandated by government regulations. A greater focus may also be on continuing to seek out more **growth-orientated investment options** to build a legacy for loved ones.



## The Supporter

When family, a friend, or a member of the community needs help, this retiree comes to the rescue. He is the much needed support when there is a family emergency or a babysitter or home repairs are required. At times, he is the neighbourhood superhero volunteering at a local fundraiser.

### Retirement path #3

As in life, the supporter's financial plan would likely be focused on others as well. It may be dedicated to investing for a grandchild's education through an RESP, gifting some of his wealth to his family or leaving a legacy for loved ones and/or charities. To **balance these altruistic goals** with his **ongoing retirement needs**, it means developing a plan that seeks out investment solutions which include **downside protection** along with **potential for growth**.

▶ The path you follow in retirement – it may cross and overlap with the jet-setter, the part-timer, the supporter or may veer off in an entirely new direction – it will be unique to you. Your financial plan should be as well, supporting the path you choose to take.

**Speak with a Scotiabank advisor to build a retirement plan that is as unique as you are.**


## SPOTLIGHT PART 2 IN OUR SERIES


# How to plan your financial future in your *Thirties*


Whether you're in your thirties or are a parent with children in their thirties, we've put together some easy tips to help prepare you for the future and what it may hold.

## What you can start doing in your thirties


### The dos:


 **Take advantage of 'free money'.** Does your employer match retirement contributions, offer a pension or an employee share ownership plan? If so, take full advantage of any free money, as you continue to grow your nest egg.


 **Turn to tax-advantaged plans.** Saving money can be hard when you're still starting out but the government has designed RRSPs, TFSA's and RESPs to help you save for all your family's financial goals, while offering tax advantages. Each program works differently, but a Scotiabank advisor can help determine which plan (or combination of plans) can best suit your needs.

 **Invest for growth.** With many years ahead of you, time is still on your side. Tilting your investments towards more growth-oriented investments, such as equities, can help grow your savings over time. Increased reward potential comes hand in hand with increased risk, so you should be prepared to tough out some volatility in the value of your portfolio to enjoy the potential rewards. Talk to your Scotiabank advisor about the right mix of investments for you.

### The don'ts:

 **Become overwhelmed.** This decade can be marked by major milestones such as marriage, buying a home, the birth of a child or starting a business. While these are exciting and memorable, they can also be a source of financial stress. Determining what's most important to you and budgeting accordingly can help alleviate anxiety.

 **Try to have it all right now.** Many people in their thirties find themselves wanting to live the dream, but find it at odds with their paycheck. Living beyond your means can set you back for years to come. Delaying the 'dream' lifestyle may mean renting for a few additional years rather than buying a home to give you time to save for a larger down payment. Or it may mean purchasing a fixer-upper and using sweat equity to get your forever home.

 **Overlook your insurance needs.** Insurance is an important part of your financial future, and may help protect your property from your car to your home as well as your life. Although it might seem strange to consider about at this age, thinking about health and life insurance can help you in those unforeseen situations that may occur down the road.



**\$257,022** : Estimated cost of raising a child to age 18

Source: MoneySense magazine, 2013

## Starting a family

For many, starting a family is one of life's biggest milestones – and one of its biggest expenses. Questions to ask yourself include:




**Am I financially ready?** There are many costs associated with raising a child, many of which may not occur to new parents. Careful budgeting can mean that the only sleepless nights you get are baby-related.



**What childcare will I need?** One significant lifestyle and financial consideration is whether one parent stays at home, or if paying for a daycare or a nanny is the better option.



**What benefits am I entitled to?** There are varying levels of family benefits and assistance that may be available to you from the government and even your employer, including the Canada Child Benefit and Employment Insurance. Explore all the options you may be entitled to.

 **Living through your thirties can be a juggling act. Make sure a good financial plan helps you manage the things that matter today and in the future. Contact a Scotiabank advisor today, who can help create a financial plan that makes sense for you.**

## FINANCIAL PLANNING

# Live long and *prosper*...

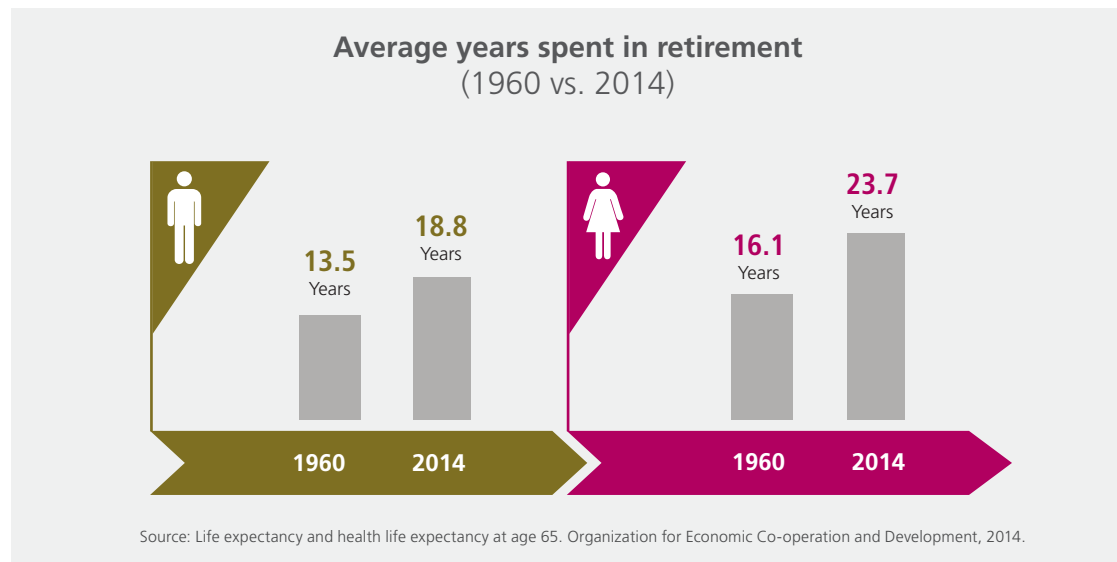
"Life's tragedy is that we get old too soon and wise too late."

— Benjamin Franklin

**IF YOU ARE** like the average investor, news headlines about market ups and downs can be unnerving. But what many investors don't realize is that there are several types of risk to consider, beyond market risk. If your focus is long-term, ensure that you don't overlook longevity risk – the chance that you may live longer than expected, and in doing so, outlast your savings. Here's why:

**1 The average life expectancy of Canadians continues to increase, as the infographic shows.** The good news is that Canadians are living longer and spending a greater number of years in retirement. But in order to ensure that your nest egg extends throughout your retirement, it's essential to plan earlier for longer.

**2 With increased life expectancy, people are living longer with illness and disability.** Canadians typically fare better than many of the 188 countries examined in a 2015 study by the Lancet Journal, with a global 'healthy life expectancy' of 70.1\*, but even a few years of steep health care and assisted living costs can take a significant bite out of retirement savings.



**3 Personal retirement savings typically have to take centre stage.** 'Market income' (employment, personal savings and investment income) for senior families grew 43.2% between 1995 and 2014 – making up the lion's share of seniors' nest eggs, according to a Statistics Canada report. Meanwhile, income from government transfers (CPP, OAS, GIS) remained relatively static, rising only 3.9% over the same period.\*\*

**Don't try to control the uncontrollable.** As you get closer to your retirement milestone, the urge to move your entire savings to the sidelines to avoid market risk might appear to be a good strategy. Playing it safe can in fact heighten longevity risk, because an overly conservative approach could mean some tough decisions down the road.

**Instead, if you're concerned about market risk, revisiting your financial plan is the best place to start. A Scotiabank advisor can help. ■**

\*The Lancet Journal "Global Burden of Disease" study by Professor Theo Vos, June 2015; as referenced in CBC article "Global life expectancy rises, but people remain sicker for longer", August 28, 2015

\*\*Statistics Canada, Survey of Labour and Income Dynamics, Canadian Income Survey, CANSIM table 206-0021.



# Happy Canada 150 Quiz

In honour of Canada's 150<sup>th</sup> birthday, or sesquicentennial, we've put together some multiple choice questions to test your knowledge on all things Canadian.



## Start here!



**1.** Which of the following are actual places in Canada?

- a) Sober Island, Nova Scotia
- b) Bacon Ridge, Manitoba
- c) Punkydoodles Corners, Ontario
- d) All of the above



**2.** Which is Canada's, and the world's, longest freshwater beach?

- a) Skaha Beach, British Columbia
- b) Parlee Beach, New Brunswick
- c) Singing Sands Beach, Prince Edward Island
- d) Wasaga Beach, Ontario



**3.** What is the only official bilingual province in Canada?

- a) Quebec
- b) Ontario
- c) New Brunswick
- d) Manitoba



**4.** When was *O, Canada* officially adopted as Canada's national anthem?

- a) 1890
- b) 1910
- c) 1960
- d) 1980



**5.** How many points did Wayne Gretzky score in his 20-year career from 1979 to 1999?

- a) 1,920
- b) 2,136
- c) 2,857
- d) 3,236



**6.** The most shopping online occurs in this province at 87%:

- a) Alberta
- b) Ontario
- c) British Columbia
- d) Manitoba



**7.** What is Canada's national sport(s)?

- a) Hockey (national winter sport)
- b) Curling (national year-round sport)
- c) Lacrosse (national summer sport)
- d) Both a and b
- e) Both a and c



**8.** Whose face appears on the Canadian hundred-dollar bill?

- a) Wilfrid Laurier
- b) Robert Borden
- c) John A. Macdonald
- d) Pierre Elliott Trudeau



**9.** In Canada, the term Indigenous peoples (or Aboriginal peoples) refers to:

- a) First Nations, Métis and Inuit
- b) Métis, Algonquin and Inuit
- c) Inuit, Iroquois and Algonquin
- d) Algonquin, First Nations and Cree



**10.** Scotiabank was the first Canadian bank to appoint women branch managers in what year?

- a) 1954
- b) 1961
- c) 1968
- d) 1975

**How did you do?**  
Check your answers below.



▶ Here are the answers:

1) All of the above 2) Wasaga Beach, Ontario 3) New Brunswick 4) 1980 5) 2,857 6) British Columbia 7) Both a and c 8) Robert Borden 9) First Nations, Métis and Inuit 10) 1961

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## MARKET INSIGHTS

# Market Recap

**Bank of Canada raises interest rate, finally.**

The Bank of Canada raised its benchmark interest rate on July 12, 2017 for the first time in seven years. "Growth is broadening across industries and regions and therefore becoming more sustainable," said Stephen Poloz, Bank of Canada Governor. The Canadian dollar rose to its highest level of the year on the day of the announcement. The probability of another rate hike later this year also increases.

**U.S. increases tariffs on softwood lumber.**

Canadian lumber companies were the target of additional trade measures by the U.S. Department of Commerce, which recently imposed additional anti-dumping duties. On average, Canadian producers will pay 6.87% for the new anti-dumping duty, on top of the average 19.88% countervailing duty introduced in April, with the overall rate on Canadian softwood lumber imports now coming in at 26.75%. This particular trade dispute dates back to the 1980s and reignites periodically.

**British election leaves Conservative in disMay.**

British Prime Minister Theresa May's early election cost her party a majority government last month. May's Conservative party lost their parliamentary majority, compelling them to form a government with Northern Ireland's Democratic Unionist Party. May called the election early in the hopes of gaining a strong show of support from voters before entering into negotiations to exit the European Union, but this strategy backfired. The British pound fell sharply on the news. ■

## MARKET PERFORMANCE

(YTD Returns in local currency as at June 30, 2017). Source: Bloomberg

▲ 2.36%

**FTSE TMX Canada  
Universe Bond Index**

▲ 0.73%

**S&P/TSX Composite  
Index**

▲ 9.34%

**S&P 500 Index**

▲ 11.01%

**MSCI World Index**

▲ 18.55%

**MSCI Emerging Markets  
Index**

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