Scotiabank
investmentinsights
Dedicated to helping you get ahead financially.
Spring 2010

You can do it – start paying yourself first

We're inviting you to take a practical step towards successful investing – starting now. There's a simple and convenient way to reach your dream and become more financially secure. Pre-authorized contributions or "PAC"s allow you to contribute to a Registered Retirement Savings Plan (RSP), Tax Free Savings Account (TFSA), or Registered Education Savings Plan (RESP), among others. You choose an amount to be automatically deducted from your chequing or savings account on a regular basis and deposited directly into the investment account of your choice.

Pre-authorized contributions help you:

Grow your savings. Watch your savings grow more quickly with ongoing contributions. As an example, if you automatically contribute $150 at the beginning of each month, your RSP with grow to $22,087 in just 10 years (assuming a 4.0% annual rate of return).* See page 2 for details.

Web learning tip: See how your regular contributions can really add up – try the *Pay Yourself First* calculator at **scotiabank.com/helpmeinvest**. Your automatic contributions could result in a larger tax deduction and a better retirement.

Avoid the last-minute scramble. Maximize your annual RSP contributions by making regular deposits, rather than waiting until the deadline every year.

Pay less taxes now. Rather than waiting for your tax refund, you can simply notify the Canada Revenue Agency of your regular RSP contributions so they can instruct your employer to deduct less income tax from each paycheque. Pick up a "Request to reduce tax deductions at source" form from your local tax office.

The newest PAC option – TFSAs.

Your annual TFSA contribution room amount is indicated on your annual notice of assessment and is made up of:

- Your annual TFSA dollar limit ($5,000 per year)
- Any unused TFSA contribution room from the previous year
- Any withdrawals made from the TFSA in the previous year, excluding qualifying transfers

You cannot contribute more than your unique TFSA contribution room in a given year, even if you make withdrawals during the year. If you do over contribute, you'll be taxed 1% of the highest excess amount in the month, for each month your account is in an over contribution position. If you withdraw your contribution plus your investment interest, the combined amount is added to your next year's TFSA contribution room.

Launch your own pre-authorized contributions

How it works

- You can choose to contribute weekly, bi-weekly, monthly, quarterly, semi-annually, or annually.
- Your chosen amount will be automatically transferred from your Scotiabank (or any other Canadian financial institution) account to the *Scotia*® investment account of your choice.
- Investment options include all high-interest savings accounts, and mutual funds, with all applicable minimum investment amounts. (Check with your *Scotia* advisor for details)
- You can change how much or how often you contribute, or cancel the service at any time, either by notifying us in writing, or by speaking with your advisor.

How we can help

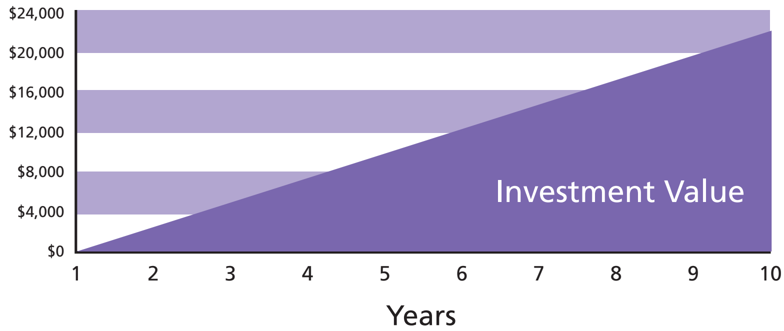
With Scotiabank, you can set up a pre-authorized contribution by any of these methods.

- At your local Scotiabank branch
- Online with *Scotia* OnLine banking
- By calling 1 800-953-7441 and asking to speak with a *Scotia* advisor

A dollar saved today works hard for you over time. Here's a chart showing an average monthly automatic contribution and interest rate and how it can make a significant difference.

Saving $150 a month for 10 years could see your savings grow to $22,087.*

* Hypothetical illustration based on an average annual rate of return of 4%, and contribution of $150 per month made at the beginning of each month for 10 years. Savings rounded to nearest dollar. This example assumes no withdrawals from the RSP and constant annual returns for each product held within the RSP which are compounded annually. Actual returns will vary depending on several factors including varying interest rates, your investment choices, the outstanding balance and the amounts and timing of contributions to the RSP. The returns you earn may not be compounded. The returns on this chart are for illustration purposes only.



Retirement Corner: The cornerstones of estate planning

While there are several ways to ensure your estate goals are achieved, two are considered cornerstones of estate planning–a properly executed and up-to-date Will and a Powers of Attorney, or Mandate in Quebec. Having these documents in place can protect your estate and beneficiaries from costly legal red tape, competing interests and unnecessary taxation.

In formulating your estate plan, it's helpful to take into account the value of your estate and the people or entities you wish to benefit. Thought should also be given to what, when and how your beneficiaries should receive their entitlement. For example, in the case of a beneficiary who is a minor, a trust rather than an outright gift may be most practical.

Careful consideration should also be given to your choice of executor and attorney(s). Your executor is responsible for administering your estate according to the wishes in your Will. The duties of an executor are complex and usually performed under emotional stress, so it pays to select carefully now.

As part of Scotia Private Client Group, Scotiatrust has been managing estates and trusts for over 100 years. If you would like to learn more about the Executor Services available through Scotia Private Client Group, visit scotiaprivateclientgroup.com to listen to a helpful podcast – "Peace of Mind with Will and Estate Planning" or speak with your *Scotia* advisor.

Steady saving pays off

If you are among the many Canadians who cringe when they look at the bottom line of their income tax return, I have some advice: begin a regular savings plan now. Not next month – now!

Pape's Corner

Gordon Pape has authored or co-authored more than 40 books on investing and personal finance. His latest book is *The Ultimate TFSA Guide: Strategies for Building a Tax-Free Fortune.*

Q *How will that help when tax time comes around next year?*

A It could save you hundreds or even thousands of dollars on the amount you owe the government, that's how.

Only about one-quarter of all taxpayers make RSP contributions in any given year, according to Canada Revenue Agency statistics. A report issued in January of this year shows that in 2008 about 24.2 million returns were filed. Of those, slightly less than 6.2 million claimed an RSP deduction.

Q *Why is RSP usage so low despite the incentive of a full tax deduction for every dollar invested?*

A In part, because people simply don't have the cash available when RSP season comes around. With the Christmas bills coming through the mail slot and winter storms conjuring up dreams of a vacation, making an RSP contribution drops way down the priority list.

The way to beat that problem is to set up a pre-authorized contribution plan that will make automatic monthly deductions from your bank account and invest them in an RSP. You decide the amount you can afford.

For example, someone with a 35% marginal tax rate who contributes $100 a month to an RSP will enjoy a tax saving of $420 at the end of a year. If you increase the contribution to $250 a month, the tax saved is $1,050. The more you contribute and the higher your tax bracket, the greater the saving. Someone with a 45% marginal rate who contributes $1,000 a month will knock $5,400 off their tax payable over a year.

Tax advantages aren't the only reason to set up a PAC. One of the most efficient ways to invest is through the use of what is called "dollar-cost averaging". This involves investing the same amount of money in a security, such as a mutual fund, each month. Doing this smoothes out the peaks and valleys of market movements – you get more shares or units for your dollars when the market is down and fewer when it is high.

Dollar-cost averaging is a particularly effective way to buy mutual funds. Simply pick the fund or funds you want and provide instructions as to how much is to be invested each month. The value of your fund portfolio will steadily increase over time through a combination of regular contributions and asset growth.

PAC plans are also a good way to save for a child's post-secondary education through the use of RESPs. The new TFSAs also lend themselves well to this approach.

One final suggestion: Every family should have an emergency fund – money to be used in the event of a crisis such as illness or job loss. The minimum amount should be the equivalent of three months of after-tax income; more if you have young children.

A fund like that will take time to create but using a PAC enables you to build it at your own pace. Even if you only set aside $100 a month, you'll have $6,000 available for emergencies after five years. Keep the money in a TFSA so that all interest earned will be tax-free when you need to make a withdrawal.

From Recession to Recovery

Liftoff Achieved, but the Flight Path Will Be Turbulent

The global recovery has achieved liftoff, supported by China and a number of emerging nations. The U.S. and other developed economies also should become fully airborne in the months ahead, fuelled by the unprecedented monetary and fiscal stimulus of 2009, the revival of consumer spending and the re-ignition of production, as firms react to improving sales prospects. However, a legacy of high unemployment and structural weakness in sectors like housing and financial services, points to a possible bumpy ride in 2010 and a low global growth trajectory into the next decade.

Domestic economic conditions have been more resilient in Canada than in the U.S., in large part because of the world-class strength of our financial sector and relatively stronger household, corporate and government balance sheets. Canada experienced only about half the rate of job loss experienced in the U.S. and has led the U.S. in job creation. These factors have supported a rebound in consumer spending and the revival of Canada's housing market, where buyers have been taking advantage of historically low interest rates at a time when U.S. residential activity is still in recession.

At the same time, Canadian exporters have faced challenges, with sales receipts in the final quarter of 2009 down roughly 20% from the previous year. Commodity producers are beginning to benefit from a rebound in global markets, but with three-quarters of external sales going to the U.S., the pace of recovery will be subdued. The rise in the Loonie to $0.95 US – in part, reflecting the recent rebound in energy and industrial resource prices – also has hurt competitiveness and lowered earnings. More of the same could be in store if our currency again moves to parity or beyond.

The paths from recession to recovery vary significantly between Canada and the U.S., but both nations are benefitting as public infrastructure projects get underway. Canadian and U.S. auto producers are gearing up to fill depleted dealer inventories now that sales have begun to recover. The momentum from these temporary factors will help both our economies gain altitude in 2010.

While there is a risk of economic relapse as governments begin unwinding unprecedented monetary and fiscal support, the broadening of global growth across sectors and regions should sustain the recovery through 2010. In Canada and the U.S., however, this year's growth will do little more than backfill the hole created by the steep decline in activity during 2008-09. Even this modest performance will compare favourably with trends in Europe and Japan, where economic retrenchment has been much deeper and the timetable for regaining lost GDP will stretch beyond 2010.

9040110 (04/10)