AdviceMatters

FALL 2019

Understanding the impact of inflation

When describing inflation, New York Yankees legend Yogi Berra perhaps said it best:

— A nickel ain't worth a dime anymore.

Expressed as an annual percentage, inflation is an important measure of the purchasing power of the currency of a nation and has implications on the cost of living of individuals and the overall pace of economic growth.

What is inflation?

IF YOU'VE GONE grocery shopping or filled your gas tank lately, you've most likely experienced the effects of inflation firsthand. Inflation is a measure of the rate at which the price of goods and services in an economy increases over a period of time. When prices rise, your money buys less.

How is inflation measured?

Economists attempt to measure inflation through methods such as the Consumer Price Index (CPI). The CPI establishes the price of a basket of goods purchased by typical consumers, such as food, housing and clothing, and measures the change in the price for the basket of goods over time. The percentage change in the price of the basket is used as an estimate of the amount of inflation in the economy overall.

Erodes purchasing power

The most familiar problem posed by inflation is the erosion of purchasing power. As inflation occurs and commonly purchased household goods become more expensive, a single unit of currency loses value as it buys fewer goods and services. This impacts the cost of living for individuals, who would then be able to buy fewer items. See the illustration below on the diminished purchasing power of $100 after 50 years.

Investors who earn less than the rate of inflation on their investments are challenged by reduced purchasing power when the investments are converted back to cash. Over the long term, this means that the cost of a comfortable retirement may keep climbing.

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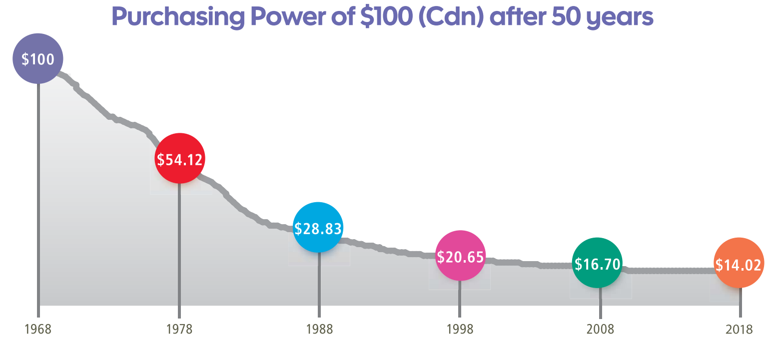
The impact of inflation

Purchasing Power of $100 (Cdn) after 50 years



Source: Stats Canada. Core Canadian CPI from December 31, 1968 to November 30, 2018.

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The impact of inflation on long-term saving

When saving for a long-term goal, we typically plan for the future while being very much rooted in the present. Often the dollar value assigned to our finish line is the cost of items today – and doesn't account for the impact that inflation can have on the purchasing power of our savings over time.

For savers and investors, inflation erodes the purchasing power of their investable assets. This is especially true of cash. An under-the-mattress approach to saving would mean $100 today would only be worth $97.09 next year, at a 3% inflation rate. Over time, the impact of inflation is greatly amplified, with that same $100 worth only $74.41 a decade later. Using a very conservative approach, anyone saving to purchase a home, fund their children's education or retirement will almost certainly find that the real return on their investment won't keep pace with the increased cost to fund their goal. Practically speaking, this means investors need to save more or achieve a higher rate of return on their investments to offset inflation.

Increases long-term costs

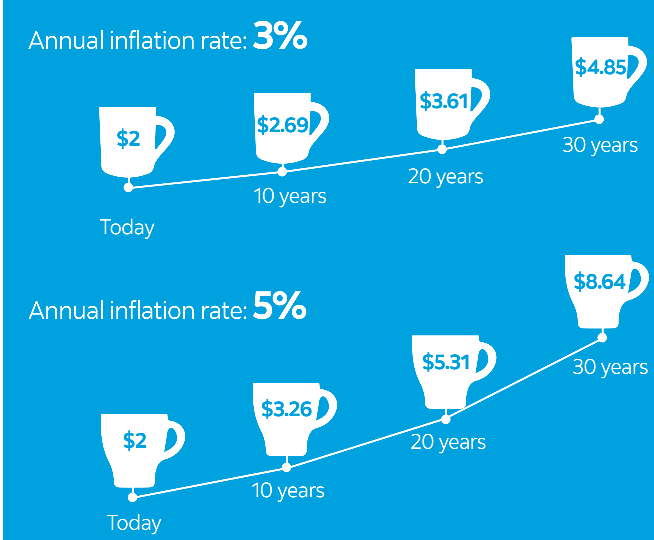
Inflation can have a significant impact on costs that will be realized years in the future. For younger investors with a long time horizon, inflation has many years to compound, with the cost of living increasing with it. As an example, if inflation were 3% every year, a cup of coffee that costs $2 today would cost $2.69 in 10 years, and getting more expensive with each passing decade (see illustration to the right). Using the same example with an annual inflation rate of 5%, that same cup of coffee would cost $3.26 in 10 years, $5.31 in 20 years, and $8.64 in 30 years. It should come as no surprise then that you will need much more money in the future compared to today, just to maintain your same standard of living.

Protecting yourself against inflation

No one can completely avoid the effects of inflation. However, a sound investment strategy as part of your financial plan can guard against inflation and help maintain your purchasing power and standard of living in retirement. Scotiabank offers a wide range of portfolio solutions that are continuously adjusted to control for a variety of risks, including inflation risk.

Talk to your Scotiabank advisor today about building a financial plan that will put you in the driver's seat for the long term.

Effect of inflation on a cup of coffee



How do Scotia Portfolio Solutions protect against inflation?

Our multi-asset portfolios invest in market segments and asset classes that aim to deliver total returns above and beyond the level of inflation over the long term. We strive to invest in companies that are leaders in their industries, that generate positive cash flow and are delivering a high level of return on invested capital.

Inflation is an important consideration when it comes to stock selection by our portfolio managers. By investing in different industries and asset classes, we benefit from the diversification of how they react to changes in inflation rates, which is important from a risk-management standpoint. By investing in a well-diversified portfolio, not only are we helping to protect the purchasing power of the investment, we expect to be compensated with a premium for taking the risk.

Judith Chan
Director, Portfolio Solutions
Scotiabank

INVESTOR INSIGHTS

5 Tips to consider before withdrawing funds from your RESP

The time has come to withdraw funds from your child's Registered Education Savings Plan (RESP). Here are five tips to help you get the most out of your RESP withdrawals.

SCENARIO 1
When your child goes to school

Proof of enrollment

In order to withdraw funds from an RESP you will need to provide proof of enrollment for your child.

Proof of Enrollment consists of a letter/document on an educational institution's letterhead containing:

- ✔ The institution's name and complete address (including postal code)
- ✔ Date of issue (must be currently dated)
- ✔ Student's name (and student number, if available)
- ✔ Confirmation that the student is currently enrolled in the program at the educational institution
- ✔ The enrollment status (full-time or part-time)

If the letter/document as described cannot be obtained, an invoice from the educational institution may also be accepted if all of the information listed above is included on the invoice.

TIP #1: Withdraw tax efficiently

A main benefit of an RESP is allowing a portion of the RESP withdrawal to be taxed in your child's hands. Typically, your child will have low income and coupled with tuition and education tax credits, they should pay little or no tax.

Let's review the two portions of an RESP and how they are taxed:

1. **Post-Secondary Education Payments (PSE)**
   - The PSE is simply your contributions into the RESP and can be withdrawn tax-free. There is no limit to how much can be withdrawn at a time.
2. **Education Assistance Payment (EAP)**
   - The EAP is everything else and comprised of investment income, capital gains and government grants/bonds earned in the RESP. The EAP is taxed in the student's hands. Again, with your child's low income and tax credits, withdrawing the EAP may help in reducing taxable income.

   Note: *The maximum withdrawal of EAP during the first 13 weeks of school is $5,000 ($2,500 for part-time students). Thereafter, there is no limit. Should more than the above limit be needed, payments can be made from the PSE.*

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TIP #2: Time your withdrawals

You want to withdraw EAP in the years when your child's income is low. Depending on summer jobs and co-op programs, their income may fluctuate year-to-year. Consider withdrawing more in low income years to take advantage of tax credits. Ultimately ensure the entire RESP is withdrawn while the student is in school, or additional taxes may apply when it is collapsed.

SCENARIO 2

When your child does not go to school

If your child does not attend post-secondary school, the government will retract all grants/bonds if the RESP is collapsed. As explained earlier, your contributions can be withdrawn tax-free from the RESP. What remains in the RESP now is the investment income, called the Accumulated Income Payment (AIP).

TIP #3: Move AIP to an RRSP

If you simply withdraw the AIP from the RESP, it would be taxed at your marginal tax rate + 20%. To avoid this, you can transfer this amount tax-free into your Registered Retirement Savings Plan (RRSP) or your spouse's RRSP up to your available contribution room, with a maximum limit of $50,000. If you do not have enough RRSP room, then you can postpone the transfer to the year after.

TIP #4: Transfer to another RESP

If you have multiple children with RESPs, you can transfer the full RESP amount to a sibling's RESP as long as the sibling is under the age of 21. However, if the sibling already received the maximum Canada Education Savings Grant (CESG) of $7,200, then the excess grant would have to be returned to the government.

TIP #5: Make use of the six month grace period

There is a six-month grace period available after the student ceases to be enrolled in a post-secondary education program. Within this time frame students are allowed to withdraw excess RESP savings in the form of EAP. Some limitations do apply, so adhere to the withdrawal guidelines. If you make exceptionally large EAP withdrawals, you may be audited by the Canada Revenue Agency (CRA) and potentially face penalties.

Your Scotiabank advisor would be happy to assist you with further information.

INVESTOR EDUCATION

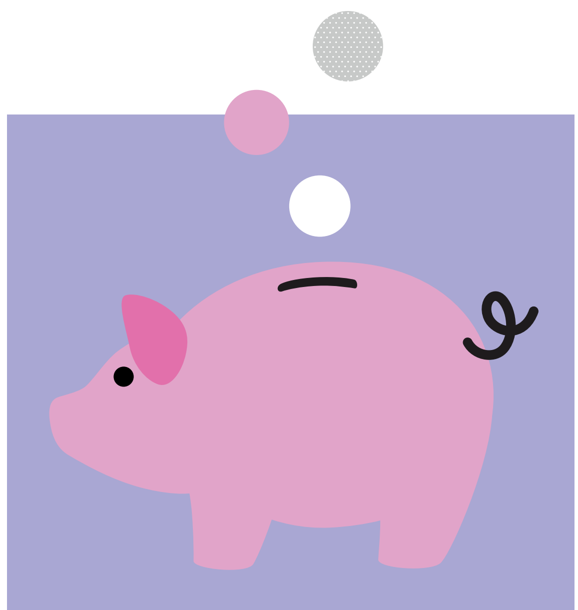
7 TIPS for paying off your student loans faster

The cost of education in Canada is rising. Tuition for Canadian full-time undergraduate students, on average, increased to $6,838 in 2018-19, reflecting an increase of 3.3% from the previous academic year.[1]

It shouldn't come as a surprise that student debt has become a real challenge for many Canadians–whether that's graduates or parents who've picked up the tab for their child's education.

According to a recent survey of about 15,000 Canadian graduates, the average debt load– among the 50% of students who finished with debt–was nearly $28,000.[2] For new graduates entering today's job market, student loan payments can be a real burden. Having to pay off a few hundred dollars each month for a decade or so can negatively impact graduates' lives, forcing them to delay major life events, such as buying a home or starting a family.

1 Statistics Canada (2018).
2 Canadian University Survey Consortium, 2018 Graduating Student Survey Master Report, June 2018.



Did you know?

The average annual cost of post-secondary education in Canada is **$19,499**.[3]

3 Source: Macleans magazine (2018). Weighted average of all major expenses for a typical undergrad student living off-campus at a Canadian university.

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Let's take a look at seven key tips for paying off that student loan faster.

1. Make payments while attending school

While student loans don't require payments on the principal while you are in school, there's nothing stopping you from beginning to pay off that debt while you're still a student. Any payments you make while in school will go toward the principal of your loan, which will reduce the total amount you owe. This means less interest to pay in the long run. Consider a part-time job to help you make early payments. You'll be very glad you did. If you already have a part-time job and get a raise, increasing your loan payment by the raise amount will also be effective.

2. Increase your monthly payments

This is one of the easiest ways to reduce your debt. Any amount you pay over and above your monthly minimum will go directly toward the principal of your loan. This decreases your total loan amount, which reduces the amount of interest you'll pay. Even an additional $10 a month can make a surprising difference over time. To ensure you make the additional payment on a regular basis, consider including the extra amount in your monthly payment.

3. Put that tax refund to good use

If you're out of school and working–or even working during the summer–chances are you might be getting a tax refund from the Canada Revenue Agency (CRA). While it might be tempting to head off to Cuba with your windfall, you could make a dent in your student loan by applying your refund toward your loan. Even if you don't want to allocate your entire tax refund, simply putting a portion towards your student loan is also wise, especially if you're entitled to a refund each year.

4. Start budgeting and cut spending

While the word "budget" may cause some to feel nervous, it's never a bad idea to understand where all your money goes each month. Start tracking your discretionary spending; you might be surprised how much money you're spending on lattes, restaurants–or even just fast food. Think about diverting at least some of those funds to your loans.

5. Consider consolidating your debt

If you had to borrow from multiple sources to finance your schooling, it might be worth investigating if you can save money by refinancing and consolidating your debt. The goal of refinancing is to decrease the rate of interest you're paying, so that more of your payments go toward paying down your principal. Having one payment might also help you stay focused on eliminating your debt. Speak with a Scotiabank advisor about options available for refinancing and consolidating your debt.

6. Make payments bi-weekly

Another popular strategy–often used by homeowners for their mortgage–is to make a payment every two weeks, as opposed to one monthly payment. In so doing, you'll make a full extra payment over the year. The convenience and benefit of this strategy is that if you receive a paycheck bi-weekly, you won't even miss paying the extra amount.

7. Get creative

If paying off your student loan quickly is really important to you, think about other creative ways to generate cash. Whether it's holding a garage sale, selling that vintage guitar you no longer play or just taking on the occasional odd job, you'd be surprised how it all adds up to you being debt-free sooner.

While paying off student loans may feel daunting, considering the above tips and speaking with a Scotiabank advisor about potential repayment strategies may help get you out of debt faster.

FINANCIAL PLANNING

Women and financial well-being

Canadian women today are busier than ever, often juggling a career and family.

While the relationship between women and money has definitely evolved over the past few decades, a recent national survey commissioned by the Financial Planning Standards Council (FPSC) reveals that nearly 40% of women still felt they knew little about finance or investing.[1]

Here are some tips and insights to help women ensure their future financial well-being.

Be prepared for an extended retirement

On average, women outlive men by four years, with a life expectancy of 85.[2] As women continue to live longer lives, the need for financial planning is critical as they may need to fund a retirement that could last 20 years or more. Longevity risk is one of the main concerns facing retirees. It refers to the risk of outliving your savings.

Speak with your financial advisor to ensure you're on track to save enough for a long and happy retirement.

Don't be afraid of taking on risk

The downside of letting actual or perceived market risk impact long-term planning is very real. An overly conservative approach to investing can limit your growth potential, and with that, increase the risk of falling short of your retirement goals or running of out of money (i.e., longevity risk), especially after factoring in inflation.

Diversifying your portfolio to include a balance of conservative and growth-oriented investments has the potential to boost the value of your portfolio over the long run and combat longevity risk.

Any move to increase the return-potential of your portfolio comes with added risk, but one that can be managed with proper planning and the right balance of investments for each stage of your life.

Remember to invest in yourself

Studies show that women often reduce or stop saving for retirement due to childcare or eldercare responsibilities. While it's important to be there for your family, it's equally important to remember to keep investing in your future.

If you haven't already done so, setting up Pre-Authorized Contributions (PACs) is an easy and convenient way to start building up savings for your financial goals–be it an emergency fund, a new car, child's education or retirement. You can choose how much money you want save, how often, as well as which accounts or investments you're contributing to.

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[1] Financial Planning Standards Council, Omni Report: Financial Independence, February 21, 2018.
[2] 2019 World Population Review (http://worldpopulationreview.com/countries/life-expectancy/)

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To learn more and see how quickly your savings can add up by investing regularly with PACs try out our **dynamic video**. Visit your nearest Scotiabank branch and an advisor will be happy to set up a PAC that meets your needs.

Choose the right advisor for you

A financial advisor can be instrumental in helping you to prioritize and reach your financial goals by creating a financial plan unique to your situation. Talking about your finances and goals will be easier if you choose the right advisor for you. As in any relationship, open and honest communication is key. Think of your relationship with your advisor as a partnership, with both of you taking an active role to reach your financial goals. By taking this approach, your advisor can provide you with the knowledge, support and motivation that can help you reach your financial goals with confidence.

Creating a financial plan may sound like an overwhelming task, but Scotiabank can help. With our knowledgeable advisors, financial-planning tools and range of investment options to choose from, we can help you customize a financial plan that's right for you. Talk to your Scotiabank advisor today.

According to a national survey of 1,000 Canadian women[3]

When asked the question – Do do you have a written financial plan?

% with no financial plan
Age

According to a study from the Financial Planning Standards Council: [4]

Why having a financial plan is so important

Canadians with comprehensive financial plans reported higher levels of:

- ✔ Financial well-being **85%**
- ✔ Emotional well-being **62%**
- ✔ Overall contentment **45%**

...compared to those without a plan

The study also showed that those with comprehensive financial plans feel:

- More on track with their financial goals and retirement plans
- Their ability to save is improved
- More confident that they can deal with financial challenges in life, and
- Better able to indulge in their personal spending goals

[3] Financial Planning Standards Council, Omni Report: Financial Independence, February 21, 2018.
[4] Financial Planning Standards Council, The Value of Financial Planning, 2012.

MARKET INSIGHTS

Market Recap

Weak economic data raises German recession fears.

A series of economic reports showed signs of weakness in Germany, raising fears of a recession. These reports include a large decline in economic sentiment in June, declining investor sentiment in June and July, disappointing retail sales in May, and a Q2 Gross Domestic Product (GDP) quarter-over-quarter decline of 0.1%. Germany's important auto industry has been particularly impacted, as global auto sales have slowed. Economists believe Germany is feeling the effects of the U.S.-China trade conflict, as well as concerns over escalating conflict between the U.S. and Iran and ongoing Brexit negotiations.

Central banks step up stimulus efforts.

The U.S. Federal Reserve cut its key policy rate by 25 basis points in September. We have now seen recent rate cuts from New Zealand, Australia, China, Russia, and a handful of other emerging markets countries. The European Central Bank (ECB) announced a new stimulus package. The ECB will cut its deposit rate by 10 basis points to a new all-time low of -0.5%, meaning banks will incur charges on any balances kept there. It is also revamping its quantitative easing program, and starting in November will buy €20 billion of bonds per month from commercial banks to inject more money into the economy.

The U.S. - China trade conflict continues to impact markets.

After a period of escalating rhetoric, there were signs of progress in the U.S.-China trade dispute. After a recent U.S. threat to further increase tariffs, China responded by announcing that they do not plan to retaliate, signalling a change in strategy. Meanwhile, U.S. President Donald Trump is planning a delay of the scheduled October tariff hike on $250 billion of Chinese goods. Chinese Vice Premier Liu agreed to attend trade negotiations in the U.S. in October, which investors took as a positive sign that a deal may be reached.

Major oil processing plant attacked in Saudi Arabia.

On September 14, a major Saudi oil processing plant was hit by a drone and missile attack, causing significant damage. This damage took 5.7 million barrels of daily oil supply off the market, or approximately 5% of global supply. Oil prices spiked on the news, and Brent crude ended up nearly 15% on record trading volumes. Houthi rebels in Yemen claimed responsibility, but Saudi officials claim that Iran is responsible, and there seems to be some evidence to support their claim. These events significantly raise the risk of escalating conflict in the region. ■

MARKET PERFORMANCE (YTD Returns in local currency as at September 30, 2019). Source: Bloomberg

▲7.79%	▲19.07%	▲20.55%	▲18.16%	▲6.14%
FTSE Canada Universe Bond Index	S&P/TSX Composite Index	S&P 500 Index	MSCI World Index	MSCI Emerging Markets Index

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