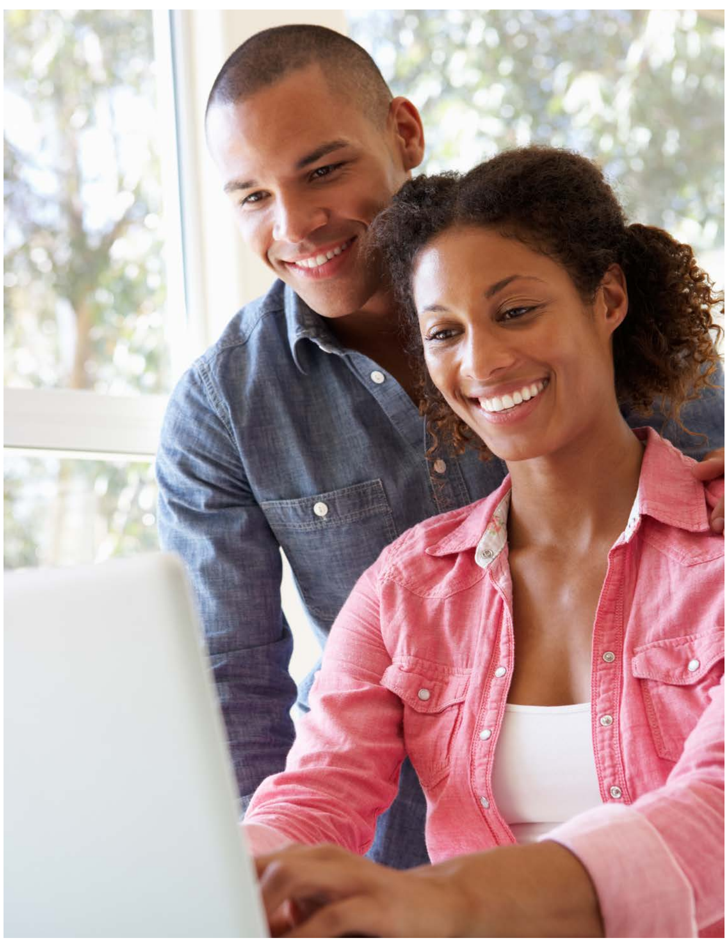
AdviceMatters

WINTER 2020

5 reasons to start your Financial Plan today

As we usher in 2020, wouldn't it be great to make a New Year's resolution that could help you build more wealth, plan for unexpected events and ultimately bring you peace of mind?



While many of us resolve to improve our physical health, the New Year is a great time to focus on your financial health by building a financial plan.

What is a Financial Plan?

Think of a financial plan as your personal roadmap. It considers your current financial situation and future goals and should include an assessment of net worth (assets vs. liabilities), cash-flow (i.e., income and spending), taxes, retirement planning, estate analysis, and in certain cases, insurance planning.

While everyone's particular plan will be different, a financial plan is designed to help answer three key questions:

- Where are you now financially?
- Where would you like to go?
- And how will you get there?

5 Key benefits to starting your Financial Plan

1 Provides a much-needed reality check

Not knowing where you stand financially, or ignoring certain issues like debt, can be extremely stressful. That's why it's essential to get an objective assessment of your overall financial health. A financial plan can determine if you're living beyond your means and then help you to understand where all your money goes.

Interested in learning more about your income and expenses? **The Scotiabank Money Finder calculator** is a great tool to help track your spending.

What is Comprehensive Planning?

In a comprehensive plan, "the main financial advisor has provided financial planning for major life goals and events, or at least three of the planning components: household budgeting, tax, retirement, estate planning, investing, debt or risk management."[1]

1 Financial Planning Standards Council, The Value of Financial Planning, 2012.

2 Helps you set realistic goals

Everyone has financial goals, but many people don't know if their goals are realistic. A financial plan will help you define realistic goals and outline a strategy for achieving them. Setting realistic goals often involves compromises; however, having realistic and attainable goals will go a long way toward minimizing unpleasant financial surprises.

3 Helps identify opportunities

A financial plan can help identify opportunities to save–or perhaps reduce one's tax burden. For instance, depending on your life stage, topping up your RRSP or TFSA may be something to consider. A Scotiabank advisor can help you navigate potential issues and recommend a course of action to help you save money, and earn money.

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Let's see how those with a comprehensive financial plan compare to those with no plan:[1]

	Comprehensive financial plan	No financial plan
Feel on track with their financial goals	81%	44%
Feel on track to retire when they want to	50%	22%
Feel their ability to save has improved in the past five years	62%	40%
More confident they can deal with unexpected financial emergencies	60%	28%

[1] Financial Planning Standards Council, The Value of Financial Planning, 2012.

4 Plans for unexpected events and risks

A financial plan can help you identify certain risks and plan accordingly. For example, do you have a will, or enough insurance to maintain your family's standard of life in the event of your death or disability? Is there an emergency fund established to cover job loss or major home repairs? A financial plan can help analyze your current situation in order to provide appropriate safeguards.

5 Increases confidence and peace of mind

According to a Financial Planning Standards Council study, which included about 15,000 Canadians, the study revealed that Canadians who engage in comprehensive financial planning report significantly higher levels of financial and emotional well-being than those who do no planning or limited planning.[1] See table to the left.

We can help. Whether you want to retire comfortably, make a major purchase, or save for your children's education– having your very own financial plan is important. With it, you can take better control of your finances and know you're on your way to achieving your goals.

With our knowledgeable advisors, financial-planning tools and range of investment options to choose from, we can help you create a financial plan that's right for you. Talk to your Scotiabank advisor today.

Q & A

Ask a Financial Planner

A Designated Personal Financial Planner since 2008, Scotiabank's Kristin Harrison has worked with hundreds of Scotiabank customers to help them create their own financial plans.

Today she works with Scotiabank's subsidiary Dynamic Funds, as a Senior Manager, Sales Training and Coordination. We recently spoke to Kristin to get her unique perspective on financial planning.

What's the biggest misconception about financial planning?

I'd say the number-one misconception is that people think they need substantial wealth to build a financial plan. That's simply not the case. You start a plan in order to begin building wealth.

When should people begin to think about creating a financial plan?

The minute that you're working and filing your taxes, it's time to start a financial plan. While an initial plan for a 25-year-old might not be that extensive, it's crucial to start the process early on. It's all about financial education, so that people can begin to make better financial choices.

What are some of the top reasons people put off financial planning?

I think a lot of it is fear. People procrastinate because it's not always easy to examine their finances–especially if there are issues. As a financial planner, my job is to make people comfortable and put their mind at ease by building a plan to help them best meet their goals.

How long does an initial meeting usually last?

The initial discovery meeting can last anywhere from an hour to two hours. Prior to the meeting, customers will receive a checklist so they'll know which documents they should bring. The advisor will draft an initial plan based on the information submitted. During the meeting, the advisor will ask questions to understand the customer and their unique goals. Then we'd have a shorter follow-up meeting to present the plan and discuss various options.

INVESTOR INSIGHTS

Understanding risk tolerance

Where do you fall on the risk spectrum?

There are a number of factors long-term investors contend with, such as inflation and longevity risk – for this article we are going to focus on market risk, and specifically risk tolerance.

YOUR RISK TOLERANCE – the degree of risk you're willing to accept when investing – is a critical factor in building a successful investment plan. While some investors are able to handle large swings in the value of their investments, others may become nervous every time the markets dip.

Determining your risk tolerance is critical because if you take on too much risk, you might panic during a market downturn and sell at the wrong time. For instance, what would you do if your portfolio went down 25% in a year? Would you be tempted to sell immediately, wait a few months and re-evaluate, or do nothing? While someone with a low risk tolerance might be tempted to sell right away in order to limit their losses, an investor with a high risk tolerance would probably hold steady–or even look to buy investments trading at a bargain.

While every investor needs to be cautious with their investment decisions, it's worth mentioning

The danger of taking on too little risk

that there's also a risk in being too cautious. For instance, if you don't take on enough risk, you might not make enough money over the long term to meet your investment goals. Risk-averse investors often forget that there are solutions to mitigate risk. It's all about knowing what your risk tolerance is, embracing the power of long-term thinking and seeking out consistency in your investment portfolio.

Having a clear understanding of your risk tolerance will help you determine which investments are suitable– and which investments to avoid. Your Scotiabank advisor can help assess your risk tolerance and build an investment plan tailored to your unique needs. ■

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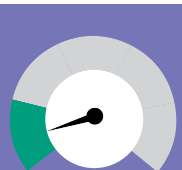
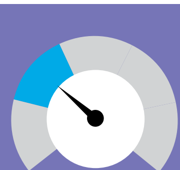
5 levels of risk tolerance

When it comes to assessing risk tolerance at Scotiabank, we use five main categories: low, low/medium, medium, medium/high and high. Let's take a closer look.



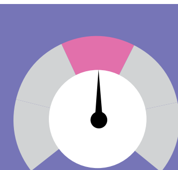
LOW

Those with low risk tolerance are often more focused on preserving capital and generating income, as opposed to driving strong market returns. Risk-averse investors generally have a diminished tolerance for volatility, particularly if they are close to reaching their investment goals.



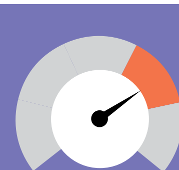
LOW / MEDIUM

Investors with low/ medium risk tolerance prefer investments with below-average volatility yet can accept some moderate volatility over the medium-to-long term. In the event of a typical market downturn, an account may decline by as much as 10% over a one-year period (or by substantially more in the event of a more severe market correction).



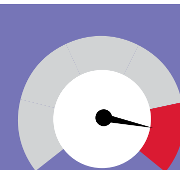
MEDIUM

Those with medium risk tolerance can accept investments with average volatility, which will fluctuate in value by a substantial amount over the medium-to-long term. In the event of a typical market downturn, an account may decline temporarily by as much as 15% over a one-year period (or by substantially more in the event of a more severe market correction)



MEDIUM / HIGH

Investors with medium/ high risk tolerance can accept investments with higher volatility, which will fluctuate in value by a substantial amount over the long term. In the event of a typical market downturn, an account may decline temporarily by as much as 20% over a one-year period (or by substantially more in the event of a more severe market correction).



HIGH

Those with a high risk tolerance can accept high volatility and significant fluctuations in the value of their investments over the long term. In the event of a typical market downturn, an account may decline temporarily by as much as 30% over a one-year period (or by substantially more in the event of a more severe market correction).

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3 key factors affecting your appetite for risk

Time horizon

The period from now to when you will need to access a significant portion of the money in your account(s) refers to time horizon. If you have a longer time horizon to invest, you may choose to be more aggressive with your investments. Conversely, someone just a few years from retirement will usually take a more conservative approach.

Investment experience

New investors are more likely to proceed with caution, as they learn to gauge markets and begin to formulate an investment strategy that doesn't keep them up at night.

Your investment objectives

Your investment objectives must also be considered when calculating how much risk can be assumed. For example, those saving for retirement may be less willing to take on higher levels of risk, as opposed to someone taking part in a more speculative investment strategy. ■

INVESTOR INSIGHTS

Words from the wise

With the start of the new year, we reached out to three of our portfolio managers to get their insights on what to expect in 2020, along with their thoughts on why investment discipline and active management are now more important than ever.

Romas Budd
Vice President & Senior Portfolio Manager
1832 Asset Management L.P.

Q Looking at 2020, what are you expecting for the global economy?

We do think 2020 is going to be a similar environment to 2019 – marked by moderate growth and moderate inflation. Consumer spending has held up pretty well, but we're concerned that may trail off a little bit as the year unfolds. The central banks lowered interest rates in 2019, so that's a real positive going forward into the new year. Many central banks have now hit the pause button on further rate cuts, but a lot of easing is in the system, so that's a positive. While the U.S. and China have finally signed a phase-one trade deal, there's still some uncertainty in that we don't know how the deal will be implemented. Another area of uncertainty is Brexit. We've had the U.K. election and the government's Brexit bill has completed its passage through Parliament, but we don't know how the trade talks between the European Union and the U.K. will unfold. And then, of course, there's the U.S. election, which will take place in November. Overall, I think we're cautiously optimistic. There are many reasons why we should maintain lower moderate growth and lower inflation, but there still are risks out there.

Vishal Patel
Vice President & Portfolio Manager
1832 Asset Management L.P.

Q How does the potential uncertainty impact your investment strategy for 2020?

Without a doubt, 2019 was a great year for equities. Our team's focus as investors is on the long term. Good investing, at its core, is sticking to a process and discipline. We do not focus on whether the market is going up, down, sideways … next week, next month, or even next year. We think a lot about a company's competitive advantage and finding strong brands that have pricing power. We're always looking for strong management teams that can create the right culture and value for all stakeholders. We believe having that investment framework and that process is essential to delivering good outcomes for investors. As active managers, we want to be entrepreneurs and investors, not speculators.

Judith Chan
Director, Portfolio Solutions
Scotiabank

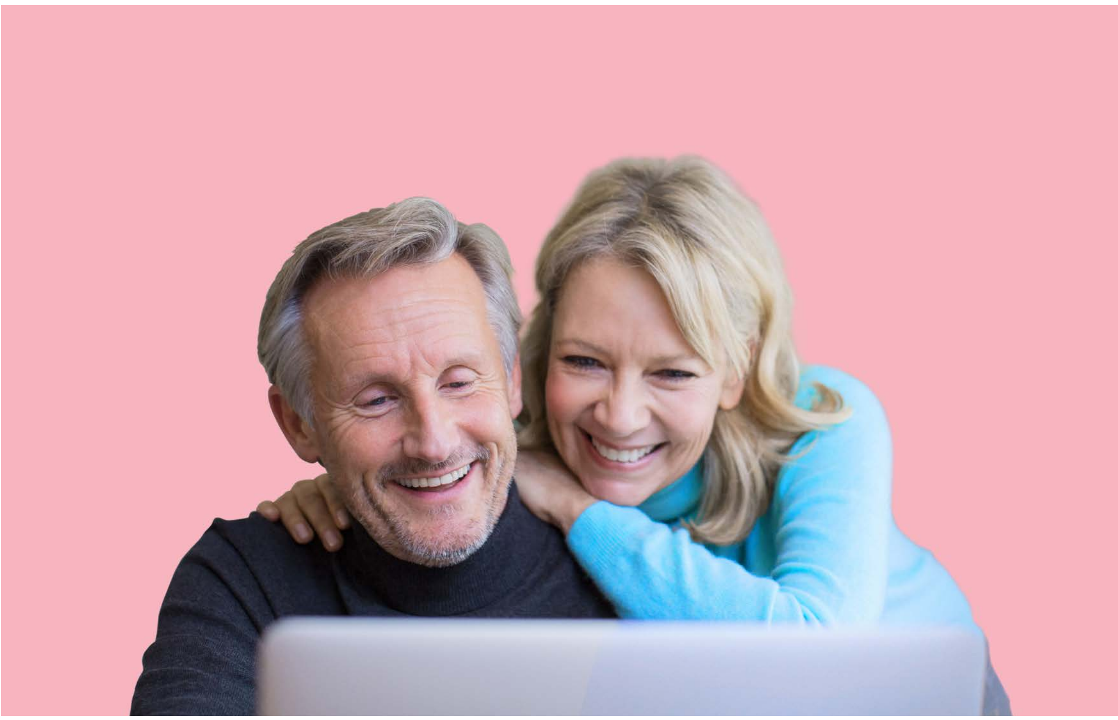
Q What is your goal for Scotia Portfolio Solutions in 2020?

In an ever-changing environment, it takes an army of investment professionals to manage a disciplined and diversified portfolio. Scotia Portfolio Solutions rely on decades of investment experience and expertise across a broad range of portfolio managers and analysts. Having been through the ups and downs of market cycles, our team applies a disciplined investment approach, staying focused on the fundamentals and tuning out the market noise. As active managers, we strive to go beyond the benchmark, building resilient portfolios that deliver long-term performance for our investors. ■

INVESTOR EDUCATION

Investing with a “PAC” mentality

Pre-Authorized Contributions make investing for long-term goals easy and affordable.



Looking for an easy and convenient way to start building up savings for retirement? With Pre-Authorized Contributions (PACs), you choose the amount you’d like to contribute, and how often – and you make adjustments at any point in time!

The beauty of a PAC is that it’s automatic. Just choose the amount you want to save and how often you want to save it–for instance, weekly, biweekly or monthly. Once it’s set up, you’ll be saving money without even thinking about it.

The benefits of PACs

Helps you stick to your plan

When it comes to saving, it’s sometimes easy to get sidetracked. A PAC allows you to make saving priority number one by ensuring you never forget.

No more scrambling to meet Registered Retirement Savings Plan (RRSP) deadline

With a PAC you’ll save automatically for your RRSP–all year round–and avoid the stress of RRSP contribution deadlines.

Eliminates the guesswork of when to invest

Research has shown that investing on a regular basis is much more effective than trying to “time the markets”–especially during periods of volatility. See the section that follows, “PACs–Making the Most of Market Volatility.”

Works with almost any budget

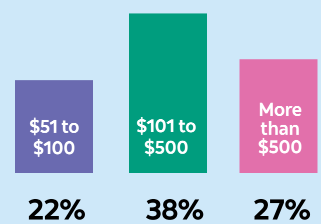
With a PAC, you determine what you can afford to save. Get started with as little as $25 per month.

Did you know?

65%
of Canadians save money on a monthly basis

$270
Estimated average saved each month

Savings put away each month



Source: Scotiabank, Global Brand & Customer Insights, Consumer Confidence Outlook & Attitudes Towards Saving/Investing, June 2019.

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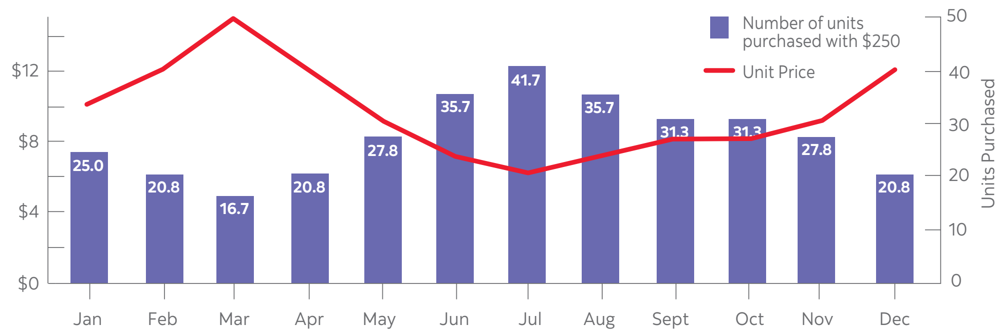
Market volatility can work for you



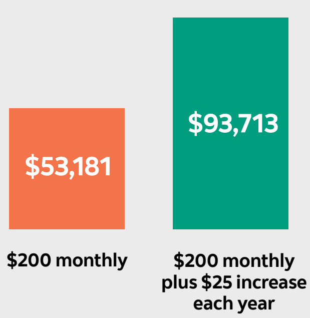
For illustrative purposes only and does not represent the performance of an actual mutual fund.

"PAC" it up – contribute more as you earn more

As you get older, it's likely your cash flow will improve. While two in three Canadians are saving on a monthly basis[1], many forget to adjust their plan as their financial circumstances change. It's a great idea to revisit your PAC contributions on a regular basis–especially after major changes, like paying off student debt or landing a promotion. While it's tempting to just set it and forget, you'll be amazed by how much more you can save by increasing your contributions–even a little bit.

In the graph below, we look at an investor who contributes $200 monthly for 15 years versus the same investor increasing their monthly contribution by just $25 each year.

PAC contribution over 15 years



Over a 15-year period, the difference is over $40,000!

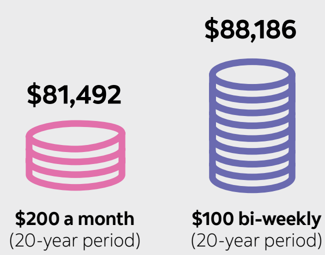
For illustrative purposes only. The example uses a hypothetical rate of return of 5%, assumes reinvestment of all income, compounded annually and does not include transaction costs, fees, or taxes. The example does not reflect actual results or the returns or future value of an actual investment.

Make it bi-weekly and save even more

Changing your contribution from a monthly basis to bi-weekly can really add up. Consider this: If you save monthly, you're making 12 contributions a year. However, when you save bi-weekly, you're paying half your monthly amount once every two weeks instead.

The example below underscores the savings advantage provided by bi-weekly contributions over a 20-year period.

Monthly vs Bi-weekly contribution



Almost $7,000 more when saving on a bi-weekly basis.

For illustrative purposes only. The example uses a hypothetical rate of return of 5%, assumes reinvestment of all income, compounded annually and does not include transaction costs, fees, or taxes. The example does not reflect actual results or the returns or future value of an actual investment.

PACs–making the most of market volatility

Market swings often make it difficult for investors to determine exactly when to invest–especially when trying to invest one lump sum each year. However, with PACs you can invest a fixed-dollar amount at regularly scheduled intervals. By investing throughout the year, PAC contributions smooth out your purchase price over the long term and eliminate the risk of investing all your funds at the wrong time.

The graph above illustrates regular monthly contributions of $250 at the beginning of each month. As the unit price fluctuates from month to month, the quantity of units purchased also changes (when the unit price is lower, more fund units are purchased: when the unit price is high, less funds are purchased).

Your Scotiabank Advisor can help

Investing on a regular basis through pre-authorized contributions is a great way to build your savings easily and automatically. Try our **interactive PAC** calculator to see how your savings can grow.

Visit your nearest Scotiabank branch and an advisor will be happy to set up a PAC that meets your needs. To set up a PAC to an existing investment without a PAC, simply sign in to Scotia OnLine. ■

[1] Source: Scotiabank, Global Brand & Customer Insights, Consumer Confidence Outlook & Attitudes towards Saving/Investing, June 2019.

Did you know?

Automatic contributions to a savings account or to investments is the most common way for Canadians to save.

Source: Scotiabank, Global Brand & Customer Insights, Consumer Confidence Outlook & Attitudes Towards Saving/Investing, June 2019.

FINANCIAL PLANNING

3 easy steps to starting an emergency fund

Life is often filled with surprises; some more pleasant than others. When it comes to unforeseen events like job loss, illness or major home repairs, it's important to be financially prepared.

Many experts suggest having an emergency fund to cover at least three to six months of total living expenses.

Having access to a ready reserve of cash will do wonders for your emotional well-being and prevent you from having to take on additional debt. Let's get started!

STEP 1: Determine how much you can save

Start off by calculating your monthly expenses, including items like rent or mortgage, utilities, transportation costs, groceries, child care, etc. Don't forget to use unexpected windfalls, like tax refunds or bonuses, to help speed up the funding process.

Contributing whatever you can to your fund; even $20 a month will make a big difference over time. Try out the **Scotiabank Money Finder Calculator** to see if you have additional money available to put towards your fund by comparing your income to your expenses.

STEP 2: Open an account

Since you want your money to be accessible, consider a **High Interest Savings Account** or perhaps a money-market account.

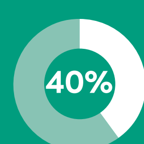
Speak with your Scotiabank advisor to determine which high-interest savings account best meets your needs. Opening a savings account online is easy –simply **apply here**.

STEP 3: Schedule Pre-Authorized Contributions

Make it easy on yourself by scheduling automatic deposits to your emergency fund. Setting up Pre-Authorized Contributions (PACs) is simple, and chances are you won't even miss the money. If money's too tight for automatic deposits, try diverting whatever you can–sooner rather than later.

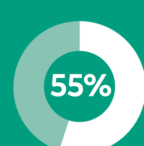
Ready to get started on your emergency fund? Visit your local Scotiabank branch to speak with a financial advisor. They can help you open an account and set up your PAC. You'll be glad you did. Try our interactive PAC calculator to see how your savings can grow.

Canadians are divided when it comes to financial resiliency

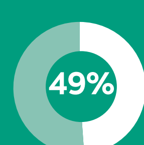


Say at their current level of spending, their household could afford to **live off their savings for 6 month or more**

However…



Not confident they could make it through financial hardship resulting from an unplanned event or emergency



Report spending as much as, or more than their monthly take-home income, and report **saving on average 10%** of their monthly take-home income

Source: 2018 Canadian Financial Health Index—Seymour Consulting (June 2018).

INVESTOR INSIGHTS

What are Canadians doing to help save money?

Scotiabank conducted its annual Investment Poll in 2019 asking a random sample of over 1,000 Canadians what they're doing to save money.

Here are the top strategies to consider for helping you achieve your savings goals.

57%
Spending less money on discretionary items

48%
Automatically contributing to a savings account

43%
Sticking to a monthly budget

39%
Automatically contributing to investments

WHAT'S NEW

Financial Buzzwords 2019

Each year brings a host of new buzzwords into everyday conversation. Here are some of our favourites:

ESG Investing

The term "ESG," which stands for Environmental, Social and Governance, was first coined in 2005 and has steadily gained traction over the last decade as concerns over climate change have taken centre stage. Also known as sustainable investing, ESG investing seeks to invest only in companies that adhere to socially responsible business practices, whether it's reducing one's carbon footprint, obeying labour laws or avoiding business with corrupt regimes.

Pay Wear

While most people don't think of their debit or credit card as a fashion accessory, that may soon be changing. A number of companies are now offering pay wear, a catch-all term for a variety of fashionable items–such as watches, rings or even jewelry pins–that allow users to pay for purchases by tapping at contactless payment terminals. Each pay wear item has a chip from a typical debit or credit card inserted into the fashionable device, which can then be attached to clothing or worn as jewelry.

Open Banking

Poised to potentially reshape the banking industry, open banking is a way for customers to securely share their financial data with other third-party providers in order to receive a wider array of tailored services, like car insurance quotes or help with budgeting–just to name a few. For example, an open banking app could help you more easily track spending across your various bank and credit card accounts–even if they're at different institutions. Last year Canada's Finance Department began consultations on the merits of open banking; however, it will likely be years before any measures are fully adopted in Canada.

Debt Apocalypse

Sounds a bit ominous, doesn't it? Generally speaking, debt apocalypse refers to the financial consequences that could await those that spend beyond their means and accumulate unmanageable debt. In the event of an economic shock, like a recession, many could be forced to default on their debt, placing a serious strain on the overall health of the economy. ■

MARKET INSIGHTS

Market Recap

The U.S. Federal Reserve Board cut rates; other major central banks left rates unchanged.

The U.S. Federal Reserve (The Fed) lowered interest rates by 25 basis points in October, as expected. This was its third consecutive rate cut, although the Fed statement indicated that this might be the last rate cut for a while, barring a sharp downturn in the economy. Fed Chairman Jerome Powell implied the U.S. economy has stabilized, and the U.S. is potentially at a turning point in its trade wars. Meanwhile, the Bank of Canada, Bank of Japan, and European Central Bank left rates unchanged at policy meetings in October. All three central banks provided commentary expressing concern about the state of the global economy and left the door open for future rate cuts.

The U.S and China reached agreement on a Phase One trade deal.

The countries agreed to Phase One of a deal late in the year, and signed the agreement in January. As part of this agreement some tariffs will be rolled back, and China pledged to purchase at least an additional $200 billion worth of U.S. farm products and other goods and services over two years. The deal also provides better protection to American companies in the areas of intellectual property and trade secrets. Investors were encouraged by the deal, and by comments from U.S. Treasury Secretary Steve Mnuchin that further tariff reductions could come in stages. Negotiations on a Phase Two agreement are expected to begin soon.

Boris Johnson's Conservatives won a comfortable majority in the U.K. election.

The election in December paved the way for Johnson to proceed with Brexit. Johnson's Brexit Withdrawal Agreement Bill was backed by MPs, clearing the way to proceed. Johnson will need to negotiate a new deal with the EU during a transition period. The Prime Minister has said the U.K. will fully exit the EU by December 2020, and the new deal will come into force in 2021. However, there is still uncertainty about how that deal will look.

The Japanese government approved a ¥26 trillion stimulus package.

Prime Minister Shinzo Abe's Cabinet approved an economic stimulus package to support the economy and build infrastructure to cope with large-scale natural disasters. Including private-sector and other spending, the package comes to around ¥26 trillion (U.S. $239 billion). This is part of an effort to support a slowing domestic economy that is dealing with tepid global growth and the boost of a recent tax hike. The package is focused on measures to boost consumer spending, in addition to spending on public works. ■

MARKET PERFORMANCE (YTD Returns in local currency as at December 31, 2019). Source: Bloomberg

▲6.87%	▲22.84%	▲31.48%	▲28.44%	▲18.63%
FTSE Canada Universe Bond Index	S&P/TSX Composite Index	S&P 500 Index	MSCI World Index	MSCI Emerging Markets Index

Scotiabank.

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