Advice**Matters**
SUMMER 2020

Getting back to basics

5 tips for keeping your finances on track

The COVID-19 pandemic has caused tremendous uncertainty and unprecedented volatility in today's financial markets. These challenging conditions may be causing you significant stress on several fronts, including your personal finances.

More than ever, it's important to remain focused on a few key tactics and return to financial basics. The following tips can help you stay on track and provide some comfort as we get through these unsettling times.

1 Focus on long-term goals

Take this opportunity to review your personalized financial plan with your advisor. If you do not have a plan yet, work with your advisor to create one. A financial plan can help clarify your objectives and serves as a roadmap for your investments, highlighting how your long-term goals are ultimately not impacted by day-to-day events. Focusing on those goals may help you to be less uneasy about current volatility.

It is also important to revisit your plan regularly to confirm that you are still on track to meet your goals, or if adjustments should be made. While you may believe it is necessary to delay some of your plans given today's market conditions, a review of your plan may reveal that, despite recent losses, your previous gains have put you ahead and that you are still on target to meet your goals.

2 Undertake a strategic review of your cash flow

Now is an opportune time to review your cash flow, which can be done using a simple exercise where expenses are divided into two categories: discretionary and non-discretionary. Review your expenses and remove or reduce any discretionary (non-essential) costs. Focus on budgeting for the non-discretionary costs that are "needs," such as groceries, mortgage payments, rent, hydro, etc.

You may find that you are spending less as a result of working from home, not eating out or simply spending more leisure time at home. With these potential savings, consider temporarily pausing any regular withdrawals from your investments. Research has shown that withdrawing at low points during volatile conditions can have a significant impact on your ability to create sustainable cash flow down the road.

Retirees should review the benefits of the federal government's recent legislation that allows Registered Retirement Income Fund (RRIF) withdrawal amounts to be reduced by 25% (provided you haven't already withdrawn your annual minimum in 2020). In both cases, if you leave more money working for you in your portfolio, you can participate in the eventual market recovery.

However, if cash flow becomes challenging in the weeks or months ahead, consider reducing discretionary (non-essential) expenses where possible, or postponing large purchases until your financial situation stabilizes. Also, if your employment income

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has been negatively impacted, explore the various support programs the government and financial institutions have put in place to ease the pressure. You may be eligible for the Canada Emergency Response Benefit, child benefits, additional GST/HST credits, mortgage and other debt support and a deferral of student loans. For more information, visit the **Government of Canada website** and the Scotiabank COVID-19 support hub on **scotiabank.com**.

3 Keep calm and carry on with your plan

If you have a plan that includes making investments toward longer-term goals – such as retirement, education or a major purchase – continue making regular contributions toward those goals and into registered saving vehicles like Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs) and Registered Education Savings Plans (RESPs), if you are able to. By doing so, you will not only continue to take advantage of tax-sheltering and government benefits, such as RESP grants, but you can limit market risk through dollar-cost-averaging (see below), where investing regularly may give you a better chance to reap the rewards when the market rebounds.

What is dollar-cost averaging?

Dollar-cost averaging is an investment technique used during volatile markets to **help reduce the risk of timing a single lump-sum investment**. By investing a fixed-dollar amount on a regular basis, dollar-cost averaging helps control the effect of market volatility by smoothing out the average cost per investment unit purchased. Over time, dollar-cost averaging could result in a lower average cost and a higher return.

Creditor Insurance Protection for when you need it

Would you be able to continue meeting your financial obligations if the unexpected happened?

A sudden illness, disability or death can put a substantial strain on a families' finances. Making regular payments towards a mortgage, credit card, loan or line of credit may become difficult.

Scotia Creditor Insurance is optional protection that can help pay off your debt or cover your monthly payments in the case of death, certain, specified critical illnesses, disability, job loss or a strike or lockout. It can also bring you peace of mind knowing your family is financially protected if the unexpected happens.

Visit **scotiabank.com/insurance** to try out our Protection Planner tool to determine if you have sufficient insurance to cover your credit obligations. You can also speak with a Scotiabank advisor, who will explain the available coverage options and recommend the appropriate solution for your specific financial situation.

Remember, it's about sticking with your plan. As you review your portfolio with your advisor, you may find opportunities to improve the tax efficiency of your investments. If you do find there is a need to make changes, there may be a benefit to taking losses now in order to offset any capital gains you reported in the last three tax years, or into the future.

4 Be prepared for the unexpected

COVID-19 has us all reevaluating our current situation to ensure our families are protected in the event of an unexpected emergency. Take the time to review your estate plan and ensure your Wills and Powers of Attorney are up to date and reflect your wishes. Remember the importance of life insurance; review your policy to ensure it's appropriate for you and your family. Finally, always remember to have a cash reserve – money that is easily accessible in an emergency to cover at least three to six months of living expenses.

5 A financial plan is key

Having a financial plan will help you not to react hastily and make emotional decisions during trying times.

A financial plan is designed to help answer three fundamental questions:

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

Whether you want to retire comfortably, make a major purchase, or save for your children's education – having a financial plan is important. With it, you can take better control of your finances and know you have a plan in place to help you achieve 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 a Scotiabank advisor today.

Acting on these few basic tips may provide you with some confidence and peace of mind during these uncertain times. While we can't always control what is happening around us, it is essential to stay focused on what is most important to us and what we can control to help alleviate some stress. ■

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COVID-19

and its financial impact on Canadians

Actions taken to adjust their finances[1]

65%	Planning to delay major purchases
46%	Cut back on spending
34%	Ensure having a cash nest egg available for the duration of the crisis
13%	Made investments
12%	Spoke with someone at a bank about their finances

Employment[2] (as of May 11)

- **36%** Not applicable (retired, at home, not in workforce)
- **31%** No impact
- **16%** Lost job and pay temporarily
- **13%** Lost some pay/income
- **2%** Lost job and pay permanently

[1] Sources: Angus Reid Weekly Monitoring of Canadian Perceptions & Behaviour Apr. 27-28.
[2] Sources: Leger COVID-19 Tracking May 11.
[3] Source: Scotiabank, Global Brand & Customer Insights, Consumer Sentiment towards Government Response to COVID-19, April 2020.

Government assistance[3]

21% of Canadians applied for the CERB

Canadians (both employed and self-employed) who lost income as a result of COVID-19 could receive the **Canada Emergency Response Benefit (CERB)** of $2,000 a month for up to 24 weeks.

10 Ways to manage stress and anxiety

Recently, mental health experts working with Scotiabank shared some tips to help maintain mental health. Here is their advice on practical things you can do to help manage stress:

1. Acknowledge how you're feeling (emotions, thoughts, physical sensations), then take action
2. Follow recommended best practice health guidelines
3. Limit exposure to news – access reliable sources and set limits
4. Focus on what you can control
5. Ensure you are getting enough physical exercise
6. Maintain a regular, structured routine
7. Mirror your workday as much as possible – take regular breaks and lunch
8. Maintain a regular sleep-wake cycle
9. Schedule in time for self-care
10. Soothe your mind – introduce meditation, even for a few minutes, to relax your mind

FINANCIAL PLANNING

Own a home, not a mortgage

Pay off your mortgage faster and own a home sooner

For many homeowners, one of the biggest questions is *"How can I pay off my mortgage as soon as possible?"*

It's natural to look forward to the day when you have made your very last mortgage payment and own your home outright. Owning your home provides you with greater financial freedom, flexibility and the ability to focus on other financial goals such as retirement or saving for your child's education.

You'll be amazed how small changes in your mortgage terms and payments can make a difference in helping you pay off your mortgage sooner.

Make your regular mortgage payments more frequent

Save interest and become mortgage-free sooner by choosing bi-weekly or weekly payments rather than monthly payments. By doing this you could make an extra monthly payment every year, without even noticing it.

Choose the shortest amortization period and the largest payment amount you can afford

Budgeting slightly higher payments will quickly become routine and will take years off your mortgage.

Increase your payment amount when you can

If you've had a mortgage for a while, you're likely used to the routine of making regular payments. Now might be a good time to consider increasing your payment to add to your overall principal amount. Also, whenever your household income rises (e.g. salary increase, new job, etc.), consider increasing your mortgage payment at the same time.

Match-a-Payment®

To help pay off your mortgage sooner, you can double your current mortgage payment of principal and interest on any regular payment date. This additional amount will go directly towards your principal without any fee or penalty[1].

Make a lump-sum payment

Take advantage of the prepayment privileges on your mortgage to make an annual lump-sum payment against your mortgage. Depending on the options you select for your mortgage, you can choose to repay up to 10%, 15% or 20% of the original principal amount of your mortgage at any time during each year of the term. Remember, even small amounts can make a big difference in the long run.

At renewal, if your interest rates have decreased, keep your payments the same

When you renew your mortgage, your principal balance is probably less and your renewal may indicate a lower payment amount if rates have dropped. If that is the case, consider leaving the payment amount to what you were paying before. This extra amount will be applied directly to your principal helping you pay off your mortgage faster.

Diversify your mortgage

Consider mortgage options that can provide savings and flexibility. Just as you would diversify your investments, you can also mix and match your mortgage terms and choose from fixed and variable rates. For example, the **Scotia Total Equity® Plan**[2] allows you to combine the features of fixed and variable rates to take advantage of potentially lower short-term rates and also protect against future rate increases. Similarly, you could combine a short-term fixed mortgage (e.g. one-year term) and a longer-term fixed mortgage (e.g. five-year term) to create a mortgage solution that is a blend of both.

Have a look at the helpful videos and tools available at **scotiabank.com**.

Mortgage Videos

- Learn more about the different options available to you based on your homeownership needs.

Mortgage-Free Faster Calculator

- Find out how much you can save by experimenting with different payment scenarios.

Whether you own a home or are looking to purchase a home, talk to a Scotiabank Financial Advisor about strategies to help pay down your mortgage faster.

[1] The Match-a-Payment is not available during an interest-only portion of any progress draw construction mortgage and may not be available depending on the mortgage solution you select. Other conditions may apply.
[2] Some mortgage solutions may not be eligible to be included as part of a Scotia Total Equity Plan.

What is the difference between a term and amortization period?

The **mortgage term** refers to the length of time that the mortgage agreement, at your agreed interest rate, is in effect. The **amortization period** is the length of time it will take to **fully pay off** the amount of the mortgage loan.

When the amortization period of the loan is longer than the payment **term**, there is a loan balance left at the end of the term, or maturity of the mortgage. For example, if you have a 10-year term, but the amortization is 25 years, you'll have 15 years of loan principal due at the end.

Did you know?

Almost ¼ of consumers start researching mortgages once they've made an offer on their home.

38% Before searching for a home

34% While searching for a home

22% Once an offer has been made

Source: Scotiabank, Global Brand & Customer Insights, Navigating the Canadian Mortgage Landscape, April 27, 2020.

STEP

Scotia Total Equity® Plan

A market-leading borrowing solution that provides flexibility and control over your borrowing needs

By leveraging equity in your home, STEP offers access to a broad range of borrowing products at low interest rates to cater to your individual long-term and short-term financial plans.

STEP is an investment vehicle with several benefits[3] including, but not limited to:

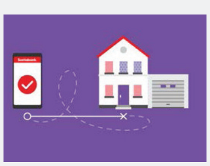
- Automatically gain access to equity as you pay down your mortgage with Auto Limit Increase (ALI).
- One-time application that establishes and unlocks an overall borrowing limit.
- Manage interest-rate risk by splitting mortgages into two or three different components, choosing from fixed and variable options.
- Choose a combination of other secured revolving credit products, such as lines of credit.
- Up to a maximum of 11 credit products for uninsured STEPs and a maximum of 3 mortgage components for insured STEPs.

For detailed information, please contact your Financial Advisor or visit **scotiabank.com.**

[3] Some restrictions may apply.

2 convenient ways to apply for a mortgage with Scotiabank

1. eHOME, your online mortgage hub



With Scotiabank eHOME, you can be pre-approved, search for a home and get mortgage approval all in one place online.

eHOME is an online mortgage hub that offers several benefits[4] including, but not limited to:

- Exclusive online offers such as preferred mortgage rates and savings of up to $300 in appraisal fees.
- Simple and secure application process that can be completed when and where you want.
- Help when you need it; if you have any questions, our mortgage specialists are here to help.
- Real-time updates so you'll always know the status of your application.

For detailed information, please contact your Financial Advisor or visit **scotiabank.com**.

2. Get mortgage advice at your home, work or on the go

Whether you want to buy your first home, purchase an income property, or use your home equity to make the most of an investment opportunity, Scotiabank Home Financing Advisors can help.

Visit scotiabank.com to find a Scotiabank Home Financing Advisor.

[4] Some restrictions may apply.

INVESTOR EDUCATION

Diversification can help manage volatility

The COVID-19 pandemic has been unsettling for investors and has many asking if their investments can withstand the current market volatility.

An essential strategy for long-term investment success and to lower the impact of market declines on your portfolio is through diversification.

Diversification is the process of spreading your money across a variety of investments that don't all behave the same way during periods of market volatility. By not limiting your exposure to any one asset class, industry or geography, you can help lower the overall risk of your portfolio to a range that you're comfortable with.

Diversification checklist:

A well-diversified portfolio consists of investments in:

- different types of asset classes (stocks, bonds, cash)
- a variety of industries
- different-sized companies, and
- diverse geographic regions and currencies

What's hot can quickly become what's not

Concentrating your investments in a few hot stocks or sectors, also known as "swinging for the fences," can be exhilarating. But is it sustainable over time? Historically, the winner in one year – the security, country, asset class or sector that outperformed its peers – is often not the winner the following year. It is almost impossible to predict winners consistently, and when they invariably falter this can lead to a potential decline in your wealth over time.

A well-diversified portfolio can help protect your investments during market downturns while potentially generating higher overall returns. Review your investments to ensure you have a portfolio in place that takes advantage of diversification to help you achieve your long-term financial goals. If you are working with an advisor, reach out to them if you have any questions.

To learn about the various investment options available through Scotiabank, visit scotiafunds.com or speak with a Scotiabank advisor.

What is an asset class?

An asset class is a grouping of investments. There are three main asset classes:

1. Equities (or stocks)
2. Bonds (or fixed income)
3. Cash

Each asset class has different investment characteristics, for example:

- the level of risk
- the potential for returns
- variations in performance in different market conditions

How do Scotia Portfolio Solutions protect against market volatility?

We posed this question to Judith Chan, Director, Portfolio Solutions, Scotiabank

"Diversification is an important consideration when it comes to constructing portfolios both from a stock selection and asset allocation perspective. By investing in different industries and asset classes, we benefit from diversification, which is important from a risk-management standpoint. By investing in a well-diversified portfolio, we are gaining exposure to a variety of asset classes to reduce volatility associated with one asset class, which is important for long-term investment success.

In accordance to their unique investment objectives, each **Scotia Portfolio Solution** features broad diversification to help reduce volatility, active management to capture selective opportunities and a heavy focus on strategic asset allocation – ensuring each of the five funds has an optimal blend of assets to suit investors with various tolerances to risk."

RETIREMENT PLANNING

Choose your own adventure

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

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.

The Adventurer

Although COVID-19 might have put a temporary hold on many travel plans, this retiree hasn't delayed planning safe excursions closer to home. Some might have thrill-seeking outings in mind, while others would prefer to be more laidback, reading a book on a beach or secluded lake. From provincial parks to bike and wine tours, glamping (aka glamourous camping) or fishing, there's no shortage of activities to help this retiree maintain a healthy and active lifestyle. Whether it's smaller, spontaneous jaunts or embarking on a cross-country tour, this retiree's lifestyle and finances need to be flexible.

Retirement path #1

Living the adventurer 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 adventurer.

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 until 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 a friend or family member 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**.

> **Retirement is not the end of the road. It is the beginning of the open highway.**
>
> — AUTHOR UNKNOWN

The path you follow in retirement – it may cross and overlap with the adventurer, 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.

MARKET INSIGHTS

Market Recap

Global economy began to show dramatic weakness.

The economic weakness in March continued into April, with a variety of reports showing deteriorating economic conditions. In the U.S. reports for April showed staggering losses of over 20 million jobs, along with retail sales down 16.4% sequentially, and first quarter GDP down 5%. In Canada reports showed April job losses of nearly two million people, a retail sales decline of 6%, and a first quarter annualized GDP decline of 8.2%. We also saw March GDP plunging by 5.8% in U.K., while in China first quarter 2020 GDP contracted by 6.8%, the first decline in 28 years.

Economic reports show the economy may have begun recovering.

Amid pessimistic expectations, a series of reports showed better-than-expected economic performance in May and June. A U.S. report showed non-farm payrolls increasing by 2.5 million jobs in May, while in Canada, a May report showed 290,000 jobs added – far better than expectations. A U.S. retail sales report showed May numbers up 17.7% from the previous month. Meanwhile, in China the Caixin/Markit services Purchasing Managers' Index was 55 in May, up from 44.4 in April. The return to expansion was driven by a sharp rise in domestic new business, although export orders fell for the fourth month in a row.

The rise of COVID-19 infections threatens the economic recovery.

There have been a variety of promising data points that suggest the beginning of a rebound after the economic collapse in April. However, this recovery is threatened by the dramatic rise in COVID-19 infections across the southern United States, and continued infections in hot spots around the world. Rising case numbers have heightened concerns that the pace of the economic recovery may be disrupted or that lockdown restrictions may have to be re-imposed.

Low interest rates appear to be here to stay

The U.S. Federal Reserve (The Fed) indicated it would likely not raise rates until at least 2022. Fed officials expect U.S. real GDP to contract by 6.5% in 2020, before growing by 5% in 2021. They believe the unemployment rate will still be 5.5% by the end of 2022. This policy update and outlook is a reminder that while equities markets have rebounded sharply from the lows in March, the underlying economy has a long road back to normal. Projections from the International Monetary Fund (IMF) share a similarly downbeat outlook. Its 2020 projection has global GDP declining by 3%, Canadian GDP dropping by 6.2% and U.S. GDP decreasing 5.9%, before an economic recovery in 2021. ■

MARKET PERFORMANCE (YTD Total Returns in Canadian (CAD) currency as at June 30, 2020). Source: Bloomberg

FTSE Canada Universe Bond Index	S&P/TSX Composite Index	S&P 500 Index	MSCI World Index	MSCI Emerging Markets Index
▲7.5%	▼-7.5%	▲1.7%	▼-0.8%	▼-5.3%

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