Advice **Matters**

WINTER 2018

2017 in review

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2017 has been a year of some curious, appealing and thought-provoking developments in the economy and capital markets. Some standouts include Trump politics, the continuation of a global bull market, change in direction from Bank of Canada and lower volatility.

High political drama

A very full political calendar started in January with Donald Trump's inauguration as the 45th President of the United States. President Trump was elected on a platform which included health care reform, deregulation, significant infrastructure investment, and tax reform. All of the heated debates, late night meetings and political wrangling did little to help advance the Trump agenda. At the time of writing, only tax reform has made any progress in Congress.

We also saw a number of important international elections take place over the past year such as those in Germany, France, the Netherlands, the U.K. and Japan. The 92% "Yes" vote from the Catalan Independence Referendum in October, and Spain's forceful opposition, showed just how fragile and uncertain the political situation in Europe remains. The triggering of Article 50 in March, which set the timelines for the U.K. to leave the European Union, is also a work in progress.

A year of economic synchronicity

We calculate that about 96% of the world's economies grew together.[1] For example, GDP in every Eurozone member country rose in harmony for the first time since the Great Financial Crisis. Healthy global growth translated into an impressive run for corporate earnings. And, with most of the world's economies expanding it should not be surprising to learn that earnings across all of the major regions of the world grew at a fairly healthy clip in 2017, the first such occurrence since 2010.

Central bank rates and volatility still low

The major central banks, by and large, kept their policy rates relatively stable and at historically depressed levels for the ninth consecutive year. Japan, Sweden and Switzerland are still operating with negative interest rates, while New Zealand's interest rate, the highest among the majors, stands at a mere 1.75%.

The U.S. Federal Reserve was one central bank on the move and, in a fairly telegraphed manner, raised interest rates by 75 basis points during the year. While the Fed operated in a fairly predictable manner throughout 2017, the same could not be said for the Bank of Canada which effectively made a 180 degree turn in policy. Governor Poloz raised interest rates twice for a total of 50 basis points from July through to September. The Bank argued that the prior emergency interest rate cuts taken in response to the 2014-15 oil price meltdown were no longer necessary. The Bank of England was the only other major monetary authority to raise interest rates in 2017 and by a trivial 25 basis points at its November meeting.

...continued

[1] Source: Dynamic Funds, Haver Analytics.

2017 in review – cont'd

Without a doubt, the lack of financial market volatility stole the show in 2017. Volatility achieved record low levels. The CBOE Options Volatility Index (VIX), often referred to as the "fear index", has remained at a very depressed reading throughout the year and has reached an all-time low in November. It is fair to say that 2017 represented the most generous risk-adjusted ride for investors and is unmatched by any year since the mid-1950s.

The $1 trillion behemoth

Talk on the street was that we might see the first $1 trillion dollar company before the end of 2017. All eyes were on Apple as it approached a $900 billion value in the third quarter of the year. To put the $U.S. 1 trillion valuation in perspective:

- If Apple were a country, it would rank as the 16th largest in the world based on nominal GDP, just behind Mexico and ahead of Indonesia.
- The entire market capitalization for each of Brazil ($880 bn), Spain ($788 bn), Italy ($701 bn) and Mexico ($386 bn) are less than $1 trillion.
- Apple would be 2.4 times larger than the market capitalization of the entire Canadian Banking sector.

For Canadians, it is already there at $1.14 trillion after translating the capitalization figure into loonies. Pop the champagne! ■

[redacted]

INVESTING INSIGHTS

WORDS from the wise

With the start of the new year and investment sights set forward, here are some insights on what to expect in 2018 from four of our portfolio managers.

BILL MCLEOD
Vice President & Portfolio Manager
1832 Asset Management L.P.
Scotia Canadian Dividend Fund

Looking to 2018, we see a modest cyclical uptick in global economic growth as synchronised central bank monetary policy begins to diverge and tighten on balance. The outlook for higher growth, moderately higher inflation expectations, normalizing interest rates, and a strong level of corporate profits and earnings growth provide a solid foundation for domestic equities on both an absolute basis and relative to many other asset classes. As the cycle matures and ultimately heads to a peak, we continue focusing, at the individual security and portfolio level, on finding quality companies with durable business models and reasonable valuations.

ERIC BENNER
Vice President & Portfolio Manager
1832 Asset Management L.P.
Scotia Global Balanced Fund

Global equity markets delivered strong returns in 2017, benefitting from the goldilocks environment of strong synchronous global economic and earnings growth, with modest inflationary pressures. Going into 2018, the slow economic recovery from the financial crisis may finally be complete, leading to a classic expansion. This could lead to higher inflation and interest rate hikes, a constructive environment for stocks as long as growth remains strong. Tax cuts could add fuel to the fire. This cycle is getting old and valuations are rising, but we remain focused on building portfolios of attractively-valued, high quality businesses with downside protection, and we remain constructive on the opportunity set.

ROMAS BUDD
Vice President & Portfolio Manager
1832 Asset Management L.P.
Scotia Bond Fund

Investors should expect slightly higher interest rates to dominate the bond market in 2018. We believe coordinated, robust, global economic growth and job creation will continue into 2018, accompanied by building inflationary pressures that will likely have central banks implementing tighter monetary policies globally. Looking ahead, the general consensus is that the Bank of Canada (BoC) will increase rates further in 2018, starting in the first quarter.

CHARLES PLOWDEN
Portfolio Manager
Baillie Gifford Overseas Limited
Scotia Global Growth Fund

As long-term active investors, we think global equities continue to represent a fantastic opportunity set, both in 2018 and beyond. Many observers are concerned about the effects of the withdrawal of unconventional monetary policies, which have provided a tailwind for markets. However, we remain optimistic, notably regarding Technology & Innovation, as well as Asian consumption and improving governance across Emerging Markets. On a long term outlook, we believe the range of attractive opportunities is as broad as ever.

FINANCIAL PLANNING

Achieving financial success: *No luck involved.*

When congratulating a friend, relative or co-worker who embarks on retirement, have you ever thought to yourself how lucky they are? Perhaps they received a financial windfall – maybe a pot of gold at the end of a rainbow? Unlikely.

[redacted]

In reality, careful planning is much more important than luck in achieving your financial goals, whatever they are. In the words of Thomas Jefferson, "Good fortune is what happens when opportunity meets planning."

Unfortunately, many of us save without the benefit of advice or a plan. Instead, we may make hurried annual contributions to a Registered Retirement Savings Plan (RRSP) as the deadline approaches or a Tax Free Savings Account (TFSA), with good intentions, but no clear direction. Sometimes we may avoid thinking about our big picture goals due to the seemingly complex questions involved.

So when preparing for your financial future, how can you focus on the forest and worry less about the trees?

When mulling over your New Year's resolutions, consider a better approach and seek financial advice from your Scotiabank® advisor – armed with knowledge, expertise and financial planning tools, they can answer your questions and help you develop a plan. Together, you can create a snapshot of where you are today, while identifying your longer-term goals, like retirement, and the steps to help you achieve them.

Planning for your future is an ongoing process. Just as regular maintenance and improvements on your home can help increase its value over time, so too can the ongoing advice and recommendations of an advisor in helping you achieve financial success. As your circumstances change, your advisor will help by adapting your plan and introducing new strategies and solutions to get you there faster.

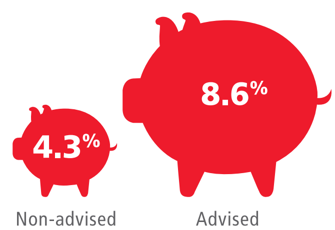
In addition to making the planning process easy, there are many good reasons to seek advice – and none of them have anything to do with luck. ■

Wealth Accumulation

Accumulate **4x the assets** at all income levels[1]

Savings Habits

Save at **twice the rate** of non-advised investors[2]



Focus

Are **less likely** to let their emotions lead to poor financial decisions[2]

[1]New Evidence on the Value of Advice, 2012. Dr. Jon Cockerline (IFIC). [2]The Value of Advice Report, 2012. (IFIC)

SPOTLIGHT PART 4 IN OUR SERIES

How to plan your financial future in your *fifties*

Unlike with our parents, the fifties are the new thirties and there's a lot of living yet to do – here are some tips to ensure your finances keep pace with your plans.

What you can start doing in your fifties:

The dos:

✔ **Ramp up your savings.** Contributing as much of your income as possible will help boost your retirement savings. If you follow the 50/30/20 rule of thumb, at least 20% of your income should go towards savings (and the remaining 50% towards necessities and 30% towards discretionary items). If you're playing catch up, the more of your income you can direct towards your savings the better. The good news is that you should be earning more than your earlier years.

✔ **Review your asset mix.** Asset allocation is widely considered the most significant driver of investment returns, and should be adjusted as you age. A common rule of thumb to getting the right mix is holding a percentage of stocks equal to 100 minus your age. So, for example a 55-year old could hold a mix of 45% equities and 55% bonds. Discuss with your financial advisor what asset allocation is best for your needs, after weighing all the necessary factors.

✔ **Prepare to leave a legacy.** Estate planning is a critical component of leaving an inheritance for your family and loved ones – first and foremost it involves having an up-to-date Will. If you have neglected writing a Will, like many Canadians, now is a great time to do so. Discussing your wishes with family will avoid any confusion later on.

The don'ts:

✘ **Rack up unnecessary debt.** As much as one-third of retired people over 55 are still carrying debt,[1] and seniors are increasing their debt loads at a much faster pace than other Canadians.[2] Longevity risk, the risk of outliving your savings, has increased with increased lifespans and is amplified further when debt also needs to be repaid.

✘ **Neglect to discuss retirement with your spouse.** Discussing money matters with your partner is important throughout a relationship, but perhaps most important when retirement planning. You may have modest plans to spend more time with family, whereas your spouse may be dreaming of travelling the world. Retirement planning needs to be part of the conversation "with the first dollar that is invested in a retirement fund", according to some tax experts. Visiting your financial advisor together can help ensure you're travelling the same path and have prepared accordingly to reach your shared retirement goals.

"Someone's sitting in the shade today because someone planted a tree a long time ago."

— **Warren Buffett**, Billionaire investor

✘ **Assume your house is your retirement.** Many Canadians expect to rely on their homes for retirement income. Not surprisingly, a home is one of the largest assets many Canadians own. While the last decade has seen home prices rise steadily across Canada, which has likely increased the value of your home, if there's a correction when you choose to sell, this could put a significant dent in your expected nest egg. Many who choose to downsize want to remain in their community, where they've established roots. But moving to a smaller home or condo in the same area may free up less home equity than anticipated, particularly if you don't want to sacrifice your lifestyle. It is also easy to forget about all the associated costs with moving, but these can add up. ■

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[1] Statistics Canada, April 27, 2011. (most recent available data)
[2] Equifax report, September 2015.

In your fifties you're clearer about what you want and what matters most — make sure your financial plan reflects this. Contact a Scotiabank advisor today, who can help ensure your plan aligns to your financial needs and goals.

NEW YEAR'S RESOLUTIONS

Our *top five* financial new year's resolutions

As the expression goes, a journey of a thousand miles starts with a single step to build momentum. All too often we start off with the best of intentions, but we may set too many goals causing us to feel overwhelmed and abandoning our plans altogether.

Here are a few financial resolutions you might consider adding to your list for 2018:

#5 Calculate your net worth

Knowing your net worth (what you're worth financially) is an important step in assessing your financial health and reaching your financial goals. Itemizing all your assets and liabilities will provide you with a better picture of your spending and savings habits and where you need to make changes. Going through this exercise will make the financial resolutions you need to make clearer.

#4 Establish a budget

This is an important step in achieving short-term priorities like paying monthly bills, and longer-term goals like buying a car or a home. By keeping track of your income and expenses, you'll have greater control of your finances and know where your money is going. To help you get started, visit scotiabank.com and try the Scotiabank Money Finder calculator. Reassess your budget at least annually and prioritize your spending. If you're in a relationship, ensure you are both on the same page with regards to shared expenses.

#3 Save for a rainy day

Unexpected expenses are inevitable, so an emergency fund should be part of your budget. Even if you only set aside small amounts every pay, if something does arise, such as a major repair to your vehicle, you won't need to access your longer-term savings or borrow from your credit card. A rule of thumb is to save the equivalent of three to six months of living expenses to get you through a financial set back or job loss.

#2 Put a financial plan in place

A financial plan is the only way to have a complete picture of your finances – it not only encompasses longer-term goals, such as retirement planning, but also includes shorter-term goals such as saving for a car or a home. A sound financial plan focuses on your current needs and future goals and puts strategies in place to help you achieve them.

And our top resolutlon is…

#1 Pay youself first

Even small amounts saved regularly can add up to large amounts in time. Ask a Scotiabank advisor about setting up a Pre-Authorized Contribution plan. ■

Benefits of a Pre-Authorized Contribution Plan:

- Makes saving automatic
- Works with almost any budget
- Takes advantage of compound growth

Ways to beat the *winter blues*

If the shorter days, less sunlight and colder weather are bringing you down, you're not alone. Here are some ways to lift your spirits as the temperature falls and the winter doldrums set in.

1. Enjoy the outdoors

When it's cold outside, the last thing you may want to do is go outdoors. Yet as Canadians we have an embarrassment of riches when it comes to winter activities – skating, skiing, tobogganing, ice fishing or simply making a snowman or snow fort with your kids. Even committing to taking a walk every day to enjoy the fresh air can improve your mood, attention span and lower stress levels.

2. Plan a vacation

Did you know that simply planning a vacation improves your overall mood? Take this up a notch by creating a countdown calendar with pictures of your destination. This is a great craft activity for children and will give them the chance to learn about a different country or region. Leading up to your trip, learn about the local cuisine and drinks and try your hand at making them.

3. Try something new

If you find yourself spending more time indoors, take advantage by learning a new recipe, card game or something that you've been wanting to try, like refinishing a piece of furniture. You could also try reading a different genre of book.

4. Indulge in comfort foods

Nothing takes the bite out of a wind chill like a tasty soup or stew made in a slow cooker or patiently on the stove with hearty ingredients like potatoes, squash, eggplant or cabbage. A big bowl of macaroni and cheese is also a great comfort food.

5. Incorporate a pop of colour in your outfits

There must be some research to back this observation – it appears that people who wear brighter colours seem to be happier and more optimistic. There's no need to overhaul your wardrobe. Women can introduce a splash of colour with a scarf, shoes, belt, lipstick or more dramatically, with a change in hair colour. Men can wear a brighter shirt or tie or try some of the colourful socks that are now very popular.

6. Sit by the fire and relax

There's something relaxing and almost hypnotic about sitting watching the embers as you're wrapped snuggly in a blanket, sipping your favourite warm or cold drink. All that's left is for you to simply play your favourite music in the background. If you don't have a fireplace, you can create the same ambiance by lighting a few candles.

7. Create a book and movie list

Winter is the perfect time to finally catch up on the books and movies you've wanted to read and watch. A good movie or book can transport you from your daily routine to exotic places and far away galaxies.

Remember – the sun and warmer weather will be back before you know it, but with these suggestions, the winter may become your favourite season. ■

FINANCIAL BUZZ WORDS 2017

Each year brings a host of new buzzwords into the everyday lexicon, capturing the zeitgeist of the times. Here are some of our favourites:

AUGMENTED REALITY (AR)

Remember the stories about people who walked into traffic while playing *Pokémon Go* in 2016? That was just the beginning. As a result of exponential technological advances, some companies let customers virtually experience a new product or service. For example, a realty company selling luxury condos to busy and high net worth New Yorkers allows potential buyers to put on AR glasses and experience the fine details of life in their future homes.

ABANDONWARE

Crop tops, wedge sneakers or rompers anyone? Abandonware isn't the ceremonial tossing of last year's fashion fad, but software that has been abandoned. Abandonware has officially been entered into the Merriam-Webster Dictionary. Most commonly, it is used to refer to video game software that is no longer sold or supported by its developer.

INTRAPRENEUR

In an age where remaining in the status quo is no longer an option for a successful future, many businesses are focusing on innovation to drive growth. This means fostering a culture where leaders can be Intrapreneurs – visionaries who aim to improve innovation from within their organizations.

BLOCKCHAIN

It's difficult to get through a full day without hearing at least one person use the term "blockchain." However, no one seems to be able to explain exactly what it means. Here's the simplest definition: blockchain is the technology that makes cryptocurrency transactions, like bitcoin trades, trackable. Think of it as an unchangeable and universally transparent accounting ledger that creates an audit trail. However, the technology is still far from perfect.

MARKET PERFORMANCE

(YTD Returns in local currency as at December 29, 2017). Source: Bloomberg

▲2.52%	▲9.08%	▲21.82%	▲23.10%	▲37.51%
FTSE TMX Canada Universe Bond Index	S&P/TSX Composite Index	S&P 500 Index	MSCI World Index	MSCI Emerging Markets Index

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