

Insights

SPRING 2009

STRATEGIES FOR YOUR FINANCIAL SUCCESS

What a slowing economy means to your portfolio

Economies, like stock markets, move in cycles, experiencing peaks and troughs while trending higher over time. The troughs can be challenging, but it's important to remember that they don't last forever.

Recessions are short-lived

Technically, a recession is defined as two or more consecutive quarters of negative economic growth. In real terms, it's a period of slowing demand, rising unemployment, reduced investment, and weaker corporate profits.

In some cases, recessions are accompanied by deflation — a sustained decline in prices caused by reductions in personal spending and investment.

Canada's last recession was in 1990-1991. Every recession is different, and the good news is that these downturns have a limited lifespan. Since the 1930s, they have typically lasted between six and 16 months.

Your portfolio

Still, it's a good idea to ensure that your portfolio is positioned to withstand current economic conditions and is positioned for a future rebound. Here are two ideas that can help in an uncertain economy:

- Focus on companies with high-profile brands, strong balance sheets,



and low debt loads. Market leaders with deep pockets may gain market share as weaker competitors fail.

- Hold high-quality bonds and other secure fixed-income instruments for stability and potential gains. These are especially valuable in deflationary periods, since the buying power of their returns increases.

We can help ensure your portfolio reflects your investment objectives and is prepared for all economic and market climates. ■



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On June 18, the federal government passed its 2008 Budget bill into law. This was a milestone for investors because it meant that the new Tax-Free Savings Account (TFSA) would be available to millions of Canadians beginning in January 2009. No doubt you have seen and heard a lot about this new savings vehicle in some way, shape or form.

- Capital gains and other investment income earned in a TFSA will not be taxed.
- Withdrawals will be tax-free.
- You can withdraw funds from the TFSA at any time and for any purpose.
- The \$5,000 annual contribution limit will be indexed to inflation in \$500 increments.
- The amount withdrawn can be put back in the TFSA at a later date without reducing your contribution room.

Call us today to find out how you can take advantage of the new Tax Free Savings Account in your savings strategy.



How asset allocation works in your portfolio

Asset allocation is an essential tool for building a balanced portfolio. Each of the major asset classes has a role to play in your investment plan. The cash portion provides security and liquidity, fixed income adds stability and regular income, while equities provide the growth potential you need to reach your goals and stay ahead of inflation.

Disciplined investing

The asset mix that's right for you will depend on your objectives, risk tolerance, and time horizon. Having the right allocation makes it easier to stay the course through challenging markets — a cornerstone of disciplined investing.

In volatile markets, having an asset allocation strategy takes on added importance, as it provides a framework to manage your portfolio through changing conditions.

For instance, when the markets are strong, the equity component of your portfolio may rise above your target weightings. In this case, following your asset allocation plan could mean selling some of your equities and reinvesting the profits in cash or fixed income. Doing so would reduce your risk and

restore your portfolio's balance.

Conversely, market corrections can reduce the value of your equity holdings, bringing them below their intended weighting. In that case, it may be prudent to sell some bonds or other fixed-income holdings, which may have appreciated, and reinvest in equities. This can present an opportunity to add shares of quality companies at lower prices, creating the potential for future gains.

Revisit your plan

Market downturns also present an opportunity to revisit your investment plan and make sure your asset allocation is still in line with your risk profile.

You may find that your risk tolerance is now lower than when you established your original allocations. As well, if you haven't adjusted your investment plan for some time, it may be time to adopt a more conservative asset allocation that reflects your age.

Here are some principles to keep in mind as you review your asset allocation and determine whether your holdings need to be rebalanced.

Employ your cash. The cash portion of your portfolio becomes even more

strategic in uncertain markets. It can provide security in case you need money quickly, and act as an investment fund to take advantage of new opportunities.

Average your costs. Investing on a regular basis can potentially help you smooth out the average price you pay for an investment. Dollar-cost averaging can be especially beneficial in changing markets, as it may reduce your average price.

Look for value. Volatile markets can create opportunities for investors with a medium- to longer-term horizon. We can help you to identify sound, market-leading companies which trade at attractive prices and which fit your risk profile.

Keep an eye on bonds. An appropriate fixed-income allocation, in line with your objectives, can provide welcome stability and income when equity markets are unpredictable.

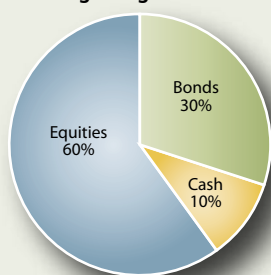
Think long term. It's important to have a portfolio that can outperform over the long term, through varying market conditions. While you may adjust your holdings, it's a good idea to maintain a focus on solid companies with strong balance sheets and a record of paying dividends. Remember that dividends may represent a significant part of your long-term returns.

Getting going

Now is a good time to review your asset allocation. Speak to us about how to prepare your portfolio for all market climates. ■

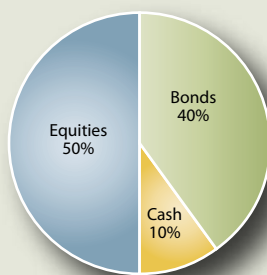
Rebalancing to your target allocation

Beginning of 2008



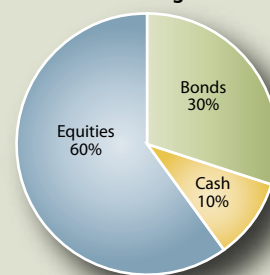
- Your target asset mix will depend on your investment objectives and risk tolerance.

End of 2008



- Declining equity markets and rising bond markets cause your asset mix to shift.

2009 target



- Getting back on track could involve selling bonds and reinvesting in more attractively priced equities.

Are you benefiting from insurance solutions?

You may think of insurance as a backstop against ill health or as security for your family.

However, insurance solutions can also provide stable investment options to help reduce risk in today's ever-changing markets.

Insurance solutions offer the potential to boost your long-term returns, while also guaranteeing your capital. The security of guaranteed principal, and in some cases guaranteed returns, can make insurance investments a strategic choice in uncertain times.

In addition, the favourable tax treatment accorded to insurance proceeds can enhance your estate-planning strategy. In most cases, life insurance benefits are tax-free.

Confidence in Canada

Recent problems with American insurers may have raised concerns about the stability of insurance investments in Canada.

Canadian insurance companies are strictly regulated, with robust capital requirements and industry-funded, government-endorsed plans to protect policyholders in case of the failure of a Canadian insurance company.

Your options

Depending on your goals, time frame, and risk tolerance, we can help you decide which insurance strategy is right for you. Here are some of the ways that you can use insurance solutions in your portfolio.

Get potentially higher returns with insured annuities. If you are a risk-averse investor, you may hold some or all of your fixed-income allocation in Guaranteed Investment Certificates (GICs) for assured returns. But the modest returns of GICs may not meet your needs, and they are fully taxable at your marginal tax rate when held in a



non-registered account. The Insured Annuity strategy involves purchasing a Life Annuity, which generates a tax-advantaged income stream, along with a permanent life insurance policy. The returns generated are often significantly higher than other fixed-income investments.

Safeguard your capital with segregated funds (“seg funds”). These funds are sponsored by insurance companies and offer a low-risk way to participate in the stock markets while safeguarding your capital against volatility.

Seg funds are similar to mutual funds and offer growth aligned to the underlying equity investments. However, they are also insurance contracts that guarantee 75% to 100% of your original investment after a predetermined time period — typically 10 years — and at death.

Some segregated funds have a “reset” feature allowing you to lock in market gains on certain dates, increasing the amount of capital guaranteed. As well, the assets can be distributed directly to your beneficiaries upon your death, avoiding probate fees and delays.

Guaranteed Minimum Withdrawal Benefit (GMWB) products. These investments are segregated funds that are designed to provide guaranteed,

potentially increasing, retirement income.

The income stream is initially based on a percentage of your original deposit. However, GMWB products usually offer an annual (non-compounding) bonus, for a predetermined number of years when withdrawals are not made. There is also the potential to increase your annual income and death benefit guarantees through periodic resets.

Enhance your estate plan with tax-exempt life insurance policies.

One way to enhance your estate plan is to shift some assets from fully taxable investments such as bonds and GICs into a permanent insurance policy (Universal Life). The investment value grows on a tax-exempt basis inside the policy, and is paid to your beneficiaries tax-free at death.

With this type of policy, you can invest the assets conservatively or more aggressively, depending on your personal risk profile, with the option of choosing investments with contractual guarantees. You benefit from continuing insurance protection, a reduction in ongoing tax liabilities, and typically a much larger estate for your heirs.

Contact us to discuss whether an insurance solution could work as part of your diversified portfolio. ■

Should you consider switching to organic food?

The popularity of organic food is growing rapidly. Canadians buy well over \$1 billion worth of organic foods each year, according to the Organic Agriculture Centre of Canada, and demand is growing at an estimated 15% to 25% a year.

But while consumers are increasingly willing to pay more for food they believe is better for their health and the environment, many Canadians may not fully understand what the “organic” label means.

The meaning of “organic”

Organic food is produced without most of the widely used synthetic aids such as chemical fertilizers and pesticides, genetic modification, food additives, irradiation, and in the case of animals, growth hormones and antibiotics.

Advocates of organic food point to several benefits, including higher levels of vitamins and other nutrients, minimal levels of chemical residues, and less run-off contaminants in the soil and water during food production.

However, the question of whether organic food is more nutritious is hard to prove conclusively, as other factors such as the quality of the soil and the amount of sunlight during the growing season may affect nutritional values.

And some claim that organic food is no healthier than conventionally pro-

duced food, since all food in Canada must meet government standards. As well, organic food may be more susceptible to natural toxins.

New labelling to benefit consumers

Adding to the confusion, until recently, it was not always easy to know that what you were buying was organic, but that is changing.

This June, new mandatory guidelines will be established for organic labelling. The Canadian Food Inspection Agency will work with certification bodies to ensure that Canada-wide standards are met, and a special logo identifying the food as organic will be used on packaging.

A matter of choice

In the end, eating organic is a matter of personal choice, likely based on your values, your research on the subject, a food’s availability, its price, and its place in your diet.

For some, that will mean going the organic route. For others, it will involve choosing to consume more fruits and vegetables and ensuring a balanced diet. Some food organizations are now promoting the “100 mile” approach — eating food grown or raised within 100 miles of your home. This means a focus on fresher food that hasn’t been transported long distances. ■

Growth in green power

Alternative energy technologies such as wind and solar power were once considered a niche investment. But increasing concerns over climate change and dwindling global oil reserves have made “green power” a mainstream industry, with strong prospects for future growth.

While the decline in oil prices in late 2008 and the global credit crunch helped push alternative energy to the background, long-term concerns such as global warming and dependability of oil supply have kept green power a priority for global decision-makers.

Governments around the world are making alternative technologies an integral part of their energy strategies. Indeed, the new U.S. administration has included alternative energy into its national infrastructure plan.

Primary investments in this sector include major manufacturers of wind, solar, and nuclear power equipment. But there are also companies that produce biofuels, fuel cells, solar panels, and the components and materials for these technologies.

The list of green energy investments is limited in Canada. However, good opportunities exist in the U.S. and global markets, and several Canadian mutual funds invest specifically in this sector.

We can help you decide whether this growing and important sector is a good fit for your investment plan. ■

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