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Solid U.S. equities still shining

Well-managed and attractively priced companies in the U.S.

It's a given that the U.S. is in for some difficult times, but that doesn't mean Canadian investors should steer clear of U.S. equities. Rather, Canadians should consider the opposite because there are well managed and attractively priced American companies with good futures.

For the last decade, Canadians have had a substantial home country bias. Rightfully so, Canadian equities have outperformed their U.S. equity counterparts by a considerable margin. According to Mackenzie Financial, the S&P 500 Composite Total Return Index returned a compounded -2.1% in Canadian dollar terms versus the S&P/TSX Total Return Index at 7.9% over the last 10 years (ending May 31, 2011).

However, a portfolio composed solely of Canadian securities can open the door to significant volatility. Nearly 80% of the S&P/TSX 60 is comprised of three sectors – financials, energy, and materials. As we've witnessed so far in 2011, a single blow to just one of those sectors can have a tremendous impact on Canadian markets.

By diversifying into U.S. equities, investors can guard against sector concentration risk and increase their defensive positioning. They can gain access to sectors, such as consumer products and healthcare, which are otherwise under-represented in Canada. According to data compiled by iShares, the U.S. represents 53.0% of

the global consumer staples market, while Canada is a mere 1.1%. Similarly, the U.S. represents 62.0% of the global healthcare sector versus 0.7% for Canada.

The valuation of the U.S. markets also presents a compelling story. Mackenzie Financial calculates the forward price-earnings ratio of the S&P 500 at just 12.8, which is one of its lowest levels in the last 26 years. Meanwhile, profits are forecast to increase by 18% in 2011. Add to that the strength of the Canadian dollar, and U.S. equities look even more appealing.

Opponents point to the current financial state of affairs in the U.S. as a source of potential problems. While inflationary issues and debt servicing problems are undoubtedly coming down the pipe, solid companies will prevail. An investor needs to concentrate on finding the value. There are many defensive, dividend-producing, globally focused U.S. equities that will continue to perform, regardless of what is happening at home. Global focus is the key.

Consider Procter & Gamble (NYSE: PG). The company's products currently reach approximately 61% of the world's households and they aim to expand to 70% by 2015. It also has a large market capitalization, a good credit rating, and solid earnings growth.

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Another is McDonalds (NYSE: MCD), a high quality, stable company with large market capitalization and a good credit rating. The company is already in 100 countries. McDonalds' knowledge of growing global markets, coupled with an expanding middle class in China, India and Latin America, bodes well for its future.

Now is the time for patient, long-range investors to diversify portfolios by adding defensive, high quality U.S. equities. Valuations are good and the Canadian dollar is still strong. American business leaders have always proven themselves to be an

incredibly inventive and resilient group. They've survived greater challenges than the present and have come out on top. I suspect this era will be no different; it's just a matter of time.

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