

YOUR MONEY

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Diversify by Investing Globally

An old adage says, “Don’t put all your eggs in one basket”, and the concept has merit. But why do so many investors choose to ignore it? Simple: because we’ve been taught that it’s best to invest in what we know - a wise principle with which I agree fully. I would add that “knowing” means examining any investment to determine that a business is solid and well managed, and that it has the right numbers on the balance sheets. And, of course, we want to buy at an advantageous price.

However, by having only a domestic investment basket, we tend to miss opportunities. We should be prepared to use our cautious approach of careful examination to know which overseas companies are suitable for a global basket. Look around your home. How many excellent products do you own that are from companies outside of North America? How many are in your portfolio?

Canadians’ home-country bias hasn’t necessarily been a bad thing. Driven primarily by foreign and domestic investment in our natural resources, the S&P/TSX has performed well over the last few years. This has proven to be an excellent investment in the short-term, but natural resources tend to be cyclical. Further, about 60% of the S&P/TSX is comprised of energy and financials. Factors like these mitigate against adequate industry diversification. .

It’s true the S&P/TSX has sectors outside of the 60% energy and financials, but they are typically small compared to the same or other industries offshore. For example, Canada represents merely 0.29% of the global healthcare market. Even in the energy and financials markets, globally we have only 9.71% and 4.47% respectively.

Global investing gives access to a range of industries not found in domestic markets and, because different stock markets tend to rise and fall at different times, there is another advantage: global diversification can help reduce portfolio fluctuations. It also helps protect you from variances in the value of the Canadian dollar when your investments are in other currencies.

In addition to our industry limitations, Canada is a small player on the world equity stage, with only 2% of the market capitalization. Investors with a domestic bias miss out on 98% of the opportunities worldwide.

To underscore the size difference, we need only look at the world’s largest company by market value - PetroChina. With capitalization of about U.S. \$1-trillion, the company is double the size of the runner-up, ExxonMobil. And, when you compare that figure to Canada’s largest companies, the difference is staggering. Fighting for the top spot in Canada are Research In Motion and Royal Bank, both sitting at just over \$67 billion in market capitalization.

In 2005, the Canadian government abolished the Foreign Property Rule, eliminating the need to cap registered holdings of foreign securities at 30%. Investors are now free to broaden their investment horizons and explore different avenues. In my opinion, when the Canadian dollar is strong against various foreign currencies, the timing couldn’t be better.

Questions about global investing? Looking for comments on your current portfolio? Kim Inglis is an Investment Advisor with Canaccord Capital and would be pleased to answer all your questions. Contact her at 604-643-7753 or via email at kim_inglis@canaccord.com. Member CIPF.