The Stan Clark Financial Team's

PERSPECTIVES

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Investing

The benefits of investing outside of Canada

By Michael Chu, Investment Advisor

A key part of the Stan Clark Financial Team investment philosophy is *diversification*, meaning that we spread out your investments to reduce risk. It's rather like the old saying: "Don't put all your eggs in one basket."

I should note here that diversification is more than just buying a sufficient number of companies. You can also diversify by geography, meaning that you have part of your investments outside of Canada. There are two main benefits to this: access to more opportunities and further risk reduction.

If we only invested in Canada, things would definitely be simpler. But we would also be limiting the benefits. Sure, there are hundreds of companies in Canada. However, there are thousands more in the U.S., and even more in the rest of the world. In fact, Canada represents only about four percent of the world's market capitalization, that is, the value of all the companies in the world. Why limit yourself to four percent of all companies? There are another 96 percent of companies to consider if we look beyond our borders!

Not only are there more companies outside of Canada, but there are different types, as well. Canada is very concentrated in just a few industries. About 70 percent of Canadian companies are one of just three types: financials, energy or materials (see chart). So, if something significant were to affect one of these industries, then there would be a large impact to an all-Canadian portfolio. For example, just recently, the decline in oil prices had a huge impact on the oil industry. If we spread out our investments, then the negative effect of low oil prices will not be as harsh.

The opportunities outside of Canada are different, too. For example, Canada has relatively few companies in information technology and health care. Therefore, investing outside of Canada not only gives us more companies, but different *types* of companies. We might also be interested in high-growth emerging markets like China or India. Sometimes certain areas of the world are doing better than others. By spreading things out, we can also take away the extreme ups and downs, resulting in less risk.

So far we've just discussed the benefits of diversifying internationally. But there are some negatives, too. Investing internationally is more complicated. We're dealing with different currencies and unfamiliar companies. Currencies can have a significant impact on your returns. A strong foreign currency will increase your net returns. Conversely, a weak currency will lower your returns. Is this something to worry about? Yes and no. It can have a big effect – but when we diversify by country, we're also diversifying currencies, so this helps spread out the currency risks.

Furthermore, while a weak currency will lower your returns, it could still be a positive for you. A weak currency will make that country's products cheaper and therefore more competitive. That might result in more profits and perhaps balance out the losses from a weak currency. So, perhaps a weaker currency might not be that bad after all!

In summary, diversifying part of your investments into different countries gives us more opportunities and lower risk for your portfolio.

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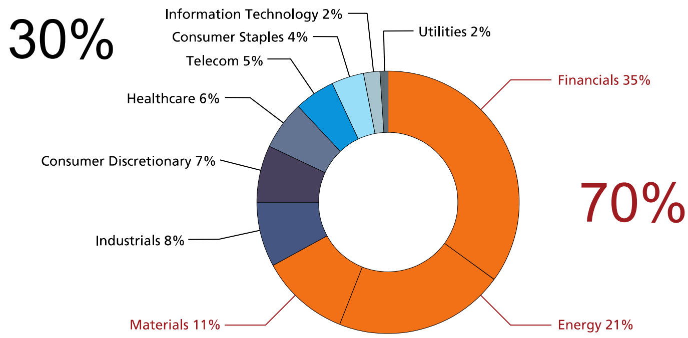
Canada dominated by 3 industries



Source: Bloomberg

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