



1 U.S. Stock That Should Be on Your Radar

Description

Canadian investors have to bear both market and foreign exchange risk when investing in U.S. equities. But with the recent upward trajectory of the Canadian dollar, information technology service company **IBM** ([NYSE: IBM](#)) may offer Canadian investors global exposure, strong dividend growth, and price appreciation.

Sustainable business model

IBM is a geographically diverse company that has entrenched relationships with most of the *Fortune* 500 companies. Two-thirds of IBM's business (global technology services, software, and global financing) is repeatable and profitable – generating an impressive 58% gross margin. The other third of IBM's business (global business services and system and technology) is more cyclical and more easily disrupted. Although IBM's system and technology business is facing some headwinds, the overall business remains stable and generates significant cash for management.

Good steward of capital

IBM has consistently retired 4-5% of its outstanding shares annually over the past decade. Thanks to a stable core business, it has been able to increase earnings in good times and bad. When many companies were under significant pressure during the financial crisis of 2008 and 2009, IBM managed to increase earnings per share every year. At the same time, IBM has a dividend compound annual growth rate of 19.4% over the past 10 years and investors should expect low double-digit dividend growth moving forward as business segments mature.

Excellent valuation

Now that we discussed what to buy, the next comes when to buy. IBM's current 2014 forward estimated price-to-earnings ratio is between 10 to 10.5 and is expected to drop to 9 to 9.5 in 2015. IBM is a buy-and-hold investment that has a high probability to outperform the market within the next five years.

Ultimately, Canadians must bear both market and foreign exchange risk when it comes to U.S. investments. With the Canadian dollar continuing to climb, IBM is attractively priced and should deliver

above market returns.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:IBM (International Business Machines Corporation)

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