



## Should You Worry About Our Canadian Dollar Weakening?

### Description

**Take Stock** is the Motley Fool Canada's **free** investing newsletter and is distributed weekly. This edition was sent to our followers yesterday. To have future editions delivered directly to you, simply [click here now](#).

Dear Fellow Fools,

In last week's [Take Stock](#) we discussed the benefits of casting your gaze beyond the Canadian border for the equity portion of your portfolio. This may appear to pose some logistical issues that, for many, seem daunting.

We'd like to provide some insights into one of these potential issues and why, in our mind, it's one you can easily dismiss.

### The elephant in the room

It's a given. If you invest in U.S. equities, you are likely to deal with currency fluctuations.

It's also a given that we (or anyone else, in our opinion!) aren't able to accurately predict currency moves, *especially* in the short term.

Unfortunately, some of these unpredictable currency fluctuations have burned investors. Some have even sworn off ever opening themselves to this kind of scenario again.

This is especially true of those who were exposed to the appreciating Canadian dollar back in the mid-2000s. The Canadian dollar (CAD) went from \$0.60-\$0.70/USD through the late 1990s and early 2000s to all of a sudden being worth approximately \$1.10/USD by 2007.

This meteoric rise had a significantly negative impact on CAD-based returns from foreign holdings.

### **Not normal**

That move was without precedent and is believed to have been driven by the herd-like flocking that occurred as investors the world over were enamoured with our commodities.

Of late, however, thanks to the pressure in the commodity sphere, the currency has acted as a tailwind for Canadian investors who've invested in the U.S market. Recently, the Canadian dollar hit a five-year low versus the USD, and this decline has significantly accentuated USD-based stock returns.

Consider the first U.S. stock that *Stock Advisor Canada* ever recommended. Since we recommended it, in USD terms, the stock has climbed by a more than respectable 27.1%, according to our Scorecard (relative to the 10% return booked by the S&P/TSX Composite over this same period).

However, for those members who purchased this stock with Canadian dollars, when the currency move is factored in, that return turns into a whopping 43.5%!

### **No big deal**

I've now given you an example of what can happen to USD investments over *the short term*. For this long-term-oriented Fool, currency moves are essentially a non-issue.

After all, my team and I are hunting for companies we think are going to provide outsized returns over the next 5-10 years. These same returns could far exceed whatever moves the currency makes during this time frame.

Why? Well, since 1971, the average USD/CAD exchange rate has registered \$0.84, or very near where it is today. We think this is as good a measure as any as to where our currency could gravitate over the long term.

### **Fee-ding frenzy**

When it comes to currency, another hang-up for many individuals is the foreign exchange-related charges that brokers, discount or otherwise, love to make. They charge when you convert your CAD into USD to buy the stock *and* when you sell that stock and convert it back. For those with a short-term mentality that are striving for capital appreciation from their stocks of a mere 5% to 10% in a matter of days, weeks, or months, this becomes a significant consideration.

There are two ways around this, however.

One is to maintain a longer-term outlook, which is again something that we aim to do with all of our *Stock Advisor Canada* recommendations.

For example, the in-and-out charges associated with an FX transaction typically amount to a low-single-digit percentage on both sides and therefore have a negligible impact on a stock that has grown at 7% per year over a period of 5-10 years. (The S&P/TSX Total Return Index's annual growth rate since 2004.)

Essentially, expanding your time horizon could make these FX transaction costs next to meaningless.

The other workaround to consider is simply opening a USD-based brokerage account. This won't eliminate these transaction costs, but it could significantly cut down on the number of in-and-out

transactions you have to make, thus cutting down on these charges.

The mechanics go something like this:

1. USD-based dividend-paying company XYZ looks like a winner.
2. Determine the amount you'd like to invest in XYZ and shift the required CAD into your shiny, new USD-based account.
3. Buy XYZ.
4. Collect dividend payments in USD, and keep them in USD.
5. Five years later ... if things panned out, sell XYZ for a huge gain and keep USD proceeds in your now 5-year-old USD account.
6. Recycle those USD into a new USD-based idea.

With a USD-based account, you are only paying a fee on the initial conversion and any withdrawals that you make. You are not dinged on both sides of every transaction and on every dividend payment received. (Standard caveat here, Fools: This is not advice, and is only intended to be a general illustration; you should consult a tax advisor for any specific questions regarding your personal situation, or your brokerage about their fee policies on different types of accounts.)

### **Bottom Line**

Currency considerations boil down to how you perceive the world of investing. If you're like us and use a long-term lens, you should realize that currency really doesn't have to be a consideration. The long-term performance of the underlying investment, for better or worse, is likely to far outweigh any impact that it may have.

Same goes for related transaction costs.

And if you put yourself in this category, and consider yourself to be a long-term investor that has a taste for both our Canadian market *and* all that the U.S. market has to offer, we think you'd benefit greatly from a subscription to *Stock Advisor Canada*.

Best of all — if you [sign on today](#) and for some reason deem *Stock Advisor Canada* to not be a great fit, we'll happily provide you with a full refund within the first 30 days (prorated thereafter).

[Sign on today](#) and we'll see you inside!

### **CATEGORY**

1. Investing

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