



3 Reasons Your Portfolio Needs American Exposure

Description

Investors constantly hear about the benefits of diversification, and there is no doubt about it—diversification across industries and stocks acts as one of the best risk management tools at an investor's disposal.

Part of diversification, however, is geographic. Not only does diversifying globally reduce the effects of country-specific macroeconomic risks on your portfolio (like plunging oil prices or an overvalued housing market), but it also provides tremendous opportunity for gains by opening doors to new investment opportunities to countries with more favourable macroeconomic conditions. It is important to remember that Canada represents a small 2% of global GDP, and only contributes a very tiny portion to 2015's estimated global GDP growth.

The first place to look for global diversification is the United States. Not only does the U.S. comprise 23% of global GDP, but it is also the fastest growing of all the first world countries. Here are three reasons every investors needs the U.S. in their portfolio.

1) Adding the U.S. can provide diversification for Canadian investors

The TSX is, as a whole, a very poorly diversified index. A huge 20% comes from the volatile and commodity-driven energy sector, whereas another 10% comes from the even more volatile materials sector that largely consists of gold, silver, coal, copper, and zinc stocks. Another 35% comes from financials, leaving only 35% for the extremely important consumer discretionary, health care, tech, and consumer staples sectors.

With oil prices down 40%, and virtually every other commodity down as well, the effects on Canada are poor. Not to mention, the consumer discretionary, health care, and technology sectors are some of the best long-term performers globally, with health care, consumer discretionary, and technology stocks leading the way globally with the highest 5-year returns respectively.

By investing in the U.S. Canadians, have a chance to benefit more from opportunities these sectors. The U.S. S&P 500, for example, is very well diversified across sectors, with most having fairly equal weightings.

2) The U.S. stock market has performed better

Another good reason to add U.S. exposure to your portfolio is simply because overall the U.S. stock market has outperformed the Canadian market over time, driven by stronger economic performance. If you invested \$10,000 in the S & P 500 in 1982 and held to the end of 2014, it would currently be worth nearly \$80,000, whereas the same \$10,000 invested in the TSX for the same time period would only be worth \$49,819.

Going forward, the U.S. is expecting the highest GDP growth rate of its peers at 2.7% for 2015 compared with only 1.6% for Canada, well below the global average of 2.8%.

While there are many ways for Canadians to gain exposure to the overall U.S. stock market and economy, one of the best ways is through the **Vanguard U.S. Dividend Appreciation ETF** (TSX:VGG), which tracks an index of U.S. stocks that have grown their dividends over time.

3) The U.S. lacks some of Canada's main economic problems

Currently, Canada is suffering from an oil price collapse, a global record for household debt (167% of household income), and a housing market that is overvalued, and by some estimates, the most overvalued in the world.

The U.S. largely lacks these issues. The U.S. is currently a net importer of oil, unlike Canada, who is a net exporter, the U.S. is actually benefiting from low oil prices and should see GDP grow as oil prices decline.

In addition, the U.S. consumer has been lowering debt levels over time, and is now poised to spend much more due to low debt levels. One way to play these trends from within the TSX is by purchasing **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). TD gets about 30% of their profits from the U.S., and is poised to benefit from U.S. consumers investing and borrowing more due to their growing economy and historically low debt loads.

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