Why You Should Diversify Away From Canada

Description

The following discussion will use **iShares S&P/TSX 60 Index Fund** (TSX:XIU) to represent the Canadian market and **SPDR S&P 500 ETF Trust** (NYSEARCA:SPY) to represent the U.S. market.

In the past 12 months, the Canadian market underperformed the U.S. market by 6.6%. In the last five years, the Canadian market underperformed by 59%! Even when we stretch the timeline out to 10 years, the Canadian market still underperformed by 38%.

Why the Canadian market underperforms

Notably, the Canadian market is weighted heavily in financials, energy, and basic materials. The S&P/TSX 60 has about 20% weighting in energy and 10% in basic materials.

At the end of February, S&P 500's largest sector weightings were in technology (18.3% of the index) and healthcare (15.3%). These sectors are highly underrepresented in the S&P/TSX 60 Index, in which technology only made up 2.4% and healthcare made up less than 1% as of March 21.

Since the top technology companies are listed on the U.S. stock exchange, it makes sense to invest there for technology exposure. S&P 500's top technology holdings include **Apple Inc.** (NASDAQ:AAPL), **Microsoft Corporation** (NASDAQ:MSFT), and **Facebook Inc.** (NASDAQ:FB).

What you can do about the Canadian market's underperformance

Other than diversifying into quality technology and healthcare companies in the U.S., you can also search domestically on the Toronto Stock Exchange for quality companies that own assets outside of Canada. So, when the Canadian economy isn't doing well, these companies may be chugging along fine.

The first quality companies that come to mind for diversifying globally is the Brookfield family. **Brookfield Asset Management Inc.**, the manager and general partner, owns a significant stake (at least 30%) in each company. These companies include **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP), **Brookfield Renewable Energy Partners LP** (TSX:BEP.UN)(NYSE:BEP), and **Brookfield Property Partners LP** (TSX:BPY.UN)(NYSE:BPY).

Brookfield Infrastructure owns infrastructure assets in utilities, transport, energy, and communications in four continents. Last year it generated 32% of its cash flows from each Europe and Australia, 26% from South America, and 10% from North America.

Brookfield Renewable owns renewable power generating assets with a hydropower focus that's complemented by a wind power portfolio. It generates 70% of cash flows from North America, 20% from Brazil, and 5% each from Europe and Colombia.

Brookfield Property primarily owns a core office and retail portfolio of trophy real estate assets in North America, Brazil, the U.K., Europe, and Australia. A small percentage of its portfolio consists of opportunistic assets that are mispriced.

Conclusion

Other than their global diversification, I also like that Brookfield Infrastructure, Brookfield Renewable, and Brookfield Property offer yields of 5% or higher (due to the strong U.S. dollar) and are expected to grow their distributions by at least 5-8% per year. They can help investors with a home bias while generating a decent income. Unfortunately, the companies' prices have appreciated recently and would be better buys on dips.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)
2. NASDAQ:META (Meta Platforms Inc.)
3. NASDAQ:MSFT (Microsoft Corporation)
4. NYSE:BEP (Brookfield Renewable Partners L.P.)
5. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
6. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
7. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
8. TSX:BPY.UN (Brookfield Property Partners)
9. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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