Why Many Investors Stick to Canada

Description

Over the past five years, Canadian investors who have invested in securities priced in U.S. dollars have done very well. Similar to Canadian securities, the returns come from capital appreciation and the receipt of dividends. Additionally, Canadian shareholders of U.S. securities have made a significant amount of money from the weakening Canadian dollar.

For those not in the know, the value of the Canadian dollar is driven by many factors, one of which is the price per barrel of oil. As the country has a substantial amount of the commodity in the ground, we have the opportunity to export a large quantity and receive payment in U.S. dollars. Oil is traded and priced in U.S. dollars. Canada has been a large benefactor of rising oil prices, while a declining Canadian dollar has acted as a hedge against a falling oil price.

The money made by those holding U.S. dollars during this time has been substantial. Currently, however, the opportunity to make money by investing in stocks may be much higher for Canadian stocks than for American stocks.

Going back several years to when the U.S. dollar and Canadian dollar traded at par, a Canadian investor purchasing shares in an American company had the opportunity to make money from either a strengthening U.S. dollar or a declining Canadian dollar. The hardest thing to conceptualize is how a declining Canadian dollar is good. Remember, when an investor purchases a U.S. stock, the investor owns U.S. dollars and must (later on) convert them back to Canadian dollars.

Taking shares of **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) as an example, shares listed on the Toronto Stock Exchange have increased by almost 120% over the past five years, while the same shares listed on the New York Stock Exchange have only increased by approximately 72% over the same period. The difference is close to 47%.

Although these numbers are before currency conversion, investors need to understand what happened to the Canadian dollar/U.S. dollar exchange rate over that period. At a current cost of almost $1.30 per US$1, Canadian investors have experienced a substantial decline in the Canadian dollar over the past five years. Arguably, the money has already been made, unless the Canadian dollar further deteriorates.

Looking forward, investors need to take into consideration what the potential is for the Canadian dollar to appreciate (with rising oil prices) or continue the decline, which would further benefit Canadian investors holding American securities.

While the investment process has never been more challenging, it is important to realize that the currency fluctuations faced by investors should not be taken as a negative or as a positive. The changes in currency values have been both an opportunity and a headwind over the past decade. When investing outside the country, there are many different factors to take into consideration. Currency is just one of them.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:MFC (Manulife Financial Corporation)

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