3 Reasons to Invest Outside Canada

Description

Investing in the TSX can be fraught with more risk than many investors believe. While its performance, like Canada's economy, is closely correlated to U.S., there is also a significant lack of diversification, which magnifies many of the risks associated with investing in stocks.

You see, the **S&P/TSX Composite Index** is heavily weighted towards three economic sectors: financials, energy, and materials, which make up 35%, 20%, and 12%, respectively. That means Canadian investors are essentially incapable of effectively diversifying their portfolios to reduce risk.

Nevertheless, investing internationally offers a range of advantages that not only reduce risk, but also enhance returns, and it can be done without leaving the security of Canada.

Now what?

By investing outside Canada, there is the opportunity for investors to enhance returns. This is because many economies, especially in emerging markets, possess the potential to grow at greater rates than Canada. That means companies operating in those jurisdictions typically enjoy greater rates of growth.

An example is **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), which has built a substantial franchise in Latin America in the developing countries of Mexico, Colombia, Peru, and Chile. Those economies have enjoyed greater rates of economic growth and industrialization than developed economies. This coupled with their ongoing economic recovery has translated into a solid uptick in loan revenue for the bank with 2017 net interest income from its international division rising by an impressive 13% year over year. That growth should continue with firmer metals, oil, and coal prices, causing economic growth in Latin America to expand, which will lead to greater lending and deposits growth.

Another advantage is that emerging markets have less correlation to the U.S. economy and financial markets than developed markets such as Canada. This means that they don't move in lockstep with U.S. equity markets, reducing the impact of any U.S. market correction or economic slump.

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP), which owns and operates a diversified portfolio of critical economic infrastructure in emerging nations, is one means of benefiting from this characteristic. That infrastructure includes, ports, railroads, toll roads, and energy utilities, which give it considerable direct and indirect exposure to Brazil, China, and India — economies that are all expected to expand strongly over the course of 2018.

This is enhanced by Brookfield Infrastructure's wide economic moat and the fact that it operates in oligopolistic markets, which shields it from competition as well as downturns.

The final benefit is diversification across asset classes and countries, which reduces risk and can enhance returns. By investing internationally, investors gain exposure to a broad range of asset classes, such as commercial property and technology, which are heavily under-represented in the Canadian market.

One opportunity that stands out is **Dream Global REIT** (TSX:DRG.UN). It owns a portfolio of 282 office and commercial properties across western Europe in the Netherlands, Austria, Belgium, and Germany. Those economies are some of the strongest in Europe and are forecast to experience solid growth through 2018 and beyond.

The quality of those properties is illustrated by its occupancy, which, at the end of the third quarter 2017, stood at over 87%. Because of the ongoing economic recovery underway in the Eurozone, Dream Global's net operating income for the quarter shot up by an impressive 49% year over year. Given that the European Central Bank believes the recovery is only starting to gain traction, this means there is further strong earnings growth ahead for the REIT.

So what?

By investing internationally, Canadians can enjoy the benefits of diversification across nations as well as asset classes, while enhancing returns and reducing the impact of any domestic market correction. This makes it a key strategy to consider when constructing an investment portfolio.

CATEGORY

1. Investing

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