Why You Should Invest in Canada Despite a Decade of Lacklustre Results

Description

Many Canadian investors are increasingly pessimistic about putting their hard-earned investment dollars to work in domestic markets. But really, who can blame them? Canadian index investors have clocked in very meagre returns over the last decade, and virtually any index, on average, has outperformed the **S&P/TSX Composite Index** (TSX:^GSPTSE) in some arbitrary time span over the last decade.

It's tough, especially since Canadian investors witnessed a massive double-digit percentage U.S. rally in 2017, while the TSX returned a mere 6%, which was quickly surrendered in 2018.

To some Canadian investors, the solution is simple: just stick with foreign stocks and dump your Canadian stocks. International diversification is really important; however, there are many reasons why you should have a meaningful chunk of your capital invested in Canada, despite the past decade of underperformance, and it's not just about tax advantages like the Canadian dividend tax credit.

Intentionally avoiding domestic stocks is a mistake, especially since the TSX is one of the cheapest markets on the planet. Sure, U.S. stocks are red hot, but many of them are also ridiculously expensive, and as a value investor, it can be difficult to navigate such a market, which is still frothy, even after the recent ~10% correction.

The TSX has a 17.9 trailing price-to-earnings (P/E) multiple, which is lower than historical averages and substantially lower than that of the **S&P 500**, an index which is considerably higher than historical averages; it has a trailing P/E north of 21.

Sure, corporate tax cuts have lit a match under the U.S. economy, but rapidly rising interest rates are putting these sky-high valuations under the microscope. For those fearful of absurdly priced U.S. stocks, Canada is an extremely attractive place to invest, especially since many Canadian stocks are oversold and may be ripe for an upward surge once the next growth-to-value rotation occurs.

Being a value investor is old fashioned, especially if you're a young investor who should be focusing on growth. While growth is nice to have, you still need to consider the price you'll end up paying, and at these levels, many NASDAQ-traded growth stocks are above and beyond what's considered a reasonable valuation.

I'm sure you've heard the phrase "past performance is not an indicator of future results." That's usually a disclaimer to prevent investors from chasing funds that have been red hot in the past, but in the case of the TSX, it's also noteworthy that tough times will not last forever, and investors shouldn't expect another year of stagnant returns.

Instead of worrying about which country you should be investing in, focus on the stocks of wonderful Canadian businesses that are trading at a discount to their historical averages. Many great Canadian stocks such as **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) are trading well below where they should be given their growth trajectories. And if you're worried about a correction, you should buy such value stocks — not hot U.S. tech stocks that are trading at a mere 5% discount after doubling over the past year.

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