# Canadian Investors: Are You Overexposed to American Stocks?

## Description

U.S. stocks are great for Canadian investors because they offer exposure to the American market in ways that can help diversify a commodities-heavy domestic portfolio. The old adage goes that one should be a third invested in Canadian stocks, a third American, and a third international. But are Canadian investors adhering to that rule of thumb or are we overly exposed to U.S. interests?



One of the key trends of late has been to chase American tech stocks — a tempting play, since tech is so underrepresented on the TSX index. But this has led to overvaluation: look at the overheated market fundamentals of the FAANGs, beloved of so many investors even after the PR debacles of the summer.

While domestic investors are keen to point out our home-grown equivalents, the DOCKS, as a way to ease the pressure of a U.S.-heavy portfolio while remaining predominantly in other positions south of the border, the fact is that it may be time to pare back exposure not just to tech stocks, but to American stocks in general.

**Magna International** (TSX:MG)(NYSE:MGA)

With a market cap of $25 billion, you already know you're backing a solid stock if you invest in this auto superstar, which this year inked a lucrative deal that ties it to the Chinese electric vehicle market. A P/E of 8.5 times earnings beats both the industry and the market, signaling good value.

Magna International is a star when it comes to past earnings growth. Look at its one-year past earnings growth of 12.4%, which not only beats its own five-year average past earnings growth of 7.8%, but also trounces the North American auto components industry one-year average of 3.7%. A current dividend yield of 1.83% dovetails nicely with a low debt level of 37.4% of net worth, rounding out a classically defensive stock.

Compare this with **Tesla** (NASDAQ:TSLA). A market cap of $51 billion gets Tesla off to a good start against our own Magna International. However, a negative P/E ratio of -18.5%, and negative growth in the past year that doesn't even touch the 20.8% growth in the U.S. auto industry over the same period, puts it on a totally different level. Debt of 254.6% of net worth likewise adds to the "don't buy" signal.

With economic uncertainty threatening to end the Great Bull Run, Canadian investors may want to be sure of the diversification of their portfolios as well as the defensiveness of their positions. While holding U.S. stocks is a good way to be exposed to expanding non-domestic growth industries, Canadians should be sure that they are not overly dependent on American assets.

**The bottom line**

Stocks like Tesla and **Facebook** show what can happen when a U.S. ticker gets overheated. While Tesla has a clear Canadian alternative in Magna International, DOCKS stocks like **Open Text** go some way to mop up some of the tech potential that is otherwise missing on the TSX. If you want to swap out some of your American stocks for Canadian ones, play to the true strengths of the TSX index with tickers like Magna International.

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1. Investing



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