Beyond Borders: Invest in Emerging Markets

Description

Canadian investors tend to stick close to home with their investments; not many stray outside of the Canadian markets. Unfortunately, this can lead to significant underperformance. Only twice in the past 10 years has the TSX outperformed the **S&P 500**. The reason for this is simple – a lack of diversification.

The TSX is highly concentrated in three sectors – Financials, Energy and Materials. Together, the three combine for approximately three-quarters of the Index. Given the nature of these sectors, they are highly dependent on the price of commodities. Even Canada's Financial Industry is impacted as some of their largest customers are in the Energy and Materials sector.

It's therefore important to invest beyond our borders. First and foremost, increase your exposure to the U.S. markets. Second, consider parking a portion of your portfolio in emerging markets. Emerging markets are those that are growing their economies at a much faster pace than developed ones. Think China, India and Brazil. Although highly volatile, they are trading at a discount. In the fall, emerging markets were trading at a 50% discount to their U.S. market. This is the largest gap in recent history.

For those unwilling to venture outside the TSX, there are plenty of mutual funds or exchange traded funds (ETFs) that can give you exposure to different markets. The problem with ETFs and mutual funds is that they typically come with fees.

It is for this reason that **Fairfax India Holdings** (TSX:FIH.U) is an intriguing option.

India is the fastest-growing market

For starters, India is the fastest growing emerging market. In 2018, India's GDP grew by 7.4%, topping China (6.6%) and was almost double the world average of 3.9%. Fairfax India is an investment holding company that invests in public and private securities. It concentrates on its exposure to Indian businesses either through direct ownership or by taking stakes in customers and supplies who conduct business in, or are dependent on, India.

One of the best ways to track its performance is to compare the company against the SENSEX, India's primary stock exchange. Over the past year, the SENSEX has eeked out a 0.84% gain. In comparison, Fairfax India has lost 27.53%. Don't be scared off, however, as this indicates that the sell-off is overdone.

Fairfax India only recently began trading on the TSX. However, before this past summer, it was trading in lockstep with India's index, which has since decoupled. After dropping to a year-low in late October, the SENSEX has rebounded, whereas Fairfax India has remained flat.

Fairfax is now trading at 14.45 times earnings, far below the 23.9 average of the SENSEX. It looks even more undervalued given that the company is trading at only 10.28 times forward earnings. If that weren't enough, it is also trading just below book value. Fairfax India is poised for a rebound.

Foolish takeaway

India's GDP is expected to grow by more than 8% in 2019. It is only a matter of time before the market takes note of Fairfax India's undervaluation. In the meantime, investors can gain exposure to the world's fastest-growing market at bargain prices.

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