Warning, Canadian Investors: Avoid Home Bias Investing. Don’t Miss Out on These Growth Juggernauts

Description

Too many Canadians invest too much in Canada. That’s not a bad thing if you’re investing for eligible dividends that are more favourably taxed or not taxed at all in a taxable account.

Unfortunately, the Canadian market has poor diversification. Currently, the TSX Index has 36% exposure to the financials sector, 18% to energy, and 10%, respectively, in industrials and materials.

The Canadian market has especially low exposure to information technology, communication, consumer staples, consumer discretionary, utilities, and healthcare sectors. As a result, Canadians are likely overly concentrated in financials and energy. Additionally, there are few choices in quality businesses in the underrepresented sectors.

Don’t get me wrong — I consider leaders like **Royal Bank of Canada** and **Toronto-Dominion Bank** in the financials sector, **BCE** in the communications sector, and **Enbridge** in the energy sector as core holdings. Their dividends are decently high, too, much more generous than GICs. So, they are wonderful long-term holdings if you’re looking for decent income and stable growth.

However, if you are guilty of home-bias investing, you may be missing out on a lot of great businesses.

Invest in China’s top stocks

You may have passed over excellent companies in key markets like China.

Previously, the trade tensions between China and the United States dragged down Chinese stocks. Among them are growth juggernauts **Alibaba** and **Tencent**.

In the last reported quarter, Alibaba saw 40% year-over-year growth in revenue, while adjustedEBITDA grew 39% to RMB$37.1 billion and free cash flow nearly doubled to RMB$30.5 billion. Its core commerce business remains very profitable, and it's using some of those profits to reinvest into high-growth areas, such as cloud computing, which are not yet profitable.

In the last reported quarter, Tencent increased revenues by 21% year over year, while adjusted EBITDA grew 29% to RMB$38.1 billion and free cash flow climbed 36% to RMB$37.7 billion. Tencent is a leader in social media (Weixin and WeChat), online games (PC and smartphone), fintech, cloud, and much more.

The U.S. and China reaching the phase-one trade agreement was a turn of events in the right direction, which should help lift the weights on the growth stocks. The growing middle-class population in China is also a mega-trend to ride.

If stock picking in China is not for you, you can consider ETFs that invest in China, such as **Xtrackers Harvest CSI 300 China A-Shares ETF**; it has the ticker ASHR.

Invest in top U.S. stocks

If investing in Chinese stocks just isn't your thing, there are more familiar growth stocks like **Alphabet**, parent of Google, **Amazon**, and **Facebook**, which offer incredible growth as well.

Investor takeaway

If you're focused on Canada, you'll miss out on the long-term, double-digit growth that the mentioned growth companies provide.

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