



Should You Buy American Stocks Instead of Canadian Stocks?

Description

Analysts surveyed by *Bloomberg* last month expect Canada's economy to expand by 4.7% in 2021. The forecast is better than the previous yearly estimate of 4.4%. Growth in 2022 should be around 4.1%. Economists see the American economy growing by 4.9% this year or an improvement from the 4.1% previous estimate.

If the forecasts prove true, it will be the fourth straight year that Canada will lag the United States. In 2020, Canada's economy contracted by 5.4% compared with the 3.5% decline across the border. If economic performance is the gauge, should investors buy U.S. stocks instead of [Canadian stocks](#)?

Stock market comparison

Canada and the U.S. have common attributes. Both are wealthy, developed nations with stable governments. Their financial systems are trustworthy, while the civil infrastructures are reliable. Regarding the stock market, the U.S. market enjoys higher growth than its Canadian counterpart since 2010.

While the U.S. stock market has outgrown Canada's over the last decade, there were times the Canadian market was the better performer. The Canadian index grew by 132.9% from October 1995 to October 2005 and delivered an average annual return of 8.8%. During the same period, the U.S. index grew 107.6% and had a 7.6% average yearly return.

Fast forward to February 19, 2021, and you see the Dow Jones Industrial Average with a 2.9% year-to-date gain. The S&P 500 Index and the Nasdaq Composite Index are in positive territory with +4.0% and +7.65%. Meanwhile, the Toronto Stock Exchange (TSX) is up 5.45% thus far.

Tax implications

Non-U.S. citizens can purchase or invest in American stocks. Perhaps one reason Canadians invest in U.S. equities is that certain sectors are underrepresented at the local stock market. However, if you're

investing next door, you must know the tax implications.

Canadians will pay a capital gains tax on 50% of realized capital gains. The Canada Revenue Agency (CRA) will charge a 15% withholding tax on international stocks' dividends. Both cases will reduce your earnings meaningfully. Some analysts recommend that Canadians only hold U.S. stocks in retirement accounts for tax-reduction purposes.

Green investment for the long haul

There are 261 TSX and TSX Venture stocks combined that are cross-listed in the U.S. stock markets. The companies list in the U.S. to enhance the image and boost liquidity or obtain fresh capital from American investors.

Canadians and Americans invest in **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) because the diversified utility company is [well positioned for the clean energy revolution](#). This \$13.02 billion firm is highly diversified and engages in the generation, transmission, and distribution of water, gas, and electricity to communities across the United States. Its renewable energy business is the catalyst for growth.

Over the next five years, management plans to invest \$6.3 billion in regulated utility assets and \$3.1 billion in renewable assets. The \$9.4 billion total investments would increase Algonquin's rate significantly. It should also drive adjusted EPS to grow between 8% and 10% CAGR clip during that stretch.

Investors can expect a reliable income stream from Algonquin Power's dividends. Its wind, solar, and hydroelectric assets are under long-term contracts. If you invest today (\$21.80 per share), the dividend yield is a respectable 3.57%.

Incredible rally

The TSX's rally from the March 2020 crash was incredible. While nine of the 11 primary sectors are up year to date, risks are ever present. However, you can mitigate the risks by investing in defensive stocks.

CATEGORY

1. Dividend Stocks
2. Investing

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