



Buying U.S. Stocks? Want to Avoid High Currency-Exchange Fees? Check Out This ETF Hack!

Description

Everyone wants to buy U.S. stocks. Shares of companies like **Microsoft**, **Apple**, and **Tesla** have been on an absolute tear the last decade, outperforming the market with no signs of slowing down.

Unfortunately, as Canadians, we get paid in loonies, not greenbacks. When we buy U.S.-listed stocks, we often have to pay an additional currency exchange fee on top of the existing FX rate at a rate of anywhere from 1.5% to 3%!

Obviously, this can ding your returns substantially, even if you're investing for the long run. Later, when you sell and want to withdraw in CAD, you'll have to repeat the process again, getting dinged another 1.5-3% on a larger sum!

Fortunately, there's a way to avoid these fees by using an [exchange-traded fund \(ETF\)](#) based "loophole" called "**Norbert's Gambit**." You can perform Norbert's Gambit at [most brokerages across Canada](#) by following this guide.

What is Norbert's Gambit?

Norbert's Gambit is a technique named after Norbert Schlenker of Libra Investment Management in Salt Spring Island, B.C.

In 2001, good, ol' Norbert pioneered the idea of using shares listed on both Canadian and U.S. exchanges to exchange currency for less.

In this case, we will be using **Horizons US Dollar Currency ETF** ([TSX:DLR](#)). DLR seeks to reflect the price in Canadian dollars of the U.S. dollar. What's cool is that DLR has a version listed in USD called DLR.U, which does the opposite.

Step-by-step instructions

1. Determine how much CAD you want to convert and buy the required number of DLR shares. For instance, if I wanted to convert \$6,000, I need 474 shares of DLR at its current price of \$12.64.
2. Buy the required number of shares of DLR during trading hours. Make sure you use limit orders, unless you need the money sooner, in which case you can use a market order.
3. Contact your brokerage's customer service desk (call, email, or live chat) and ask them to "journal over your shares of DLR to DLR.U shares." Wait (usually three to four business days) for the trade to settle.
4. Once the DLR.U shares appear in your account, sell them to receive USD. Once again, make sure you use limit orders, unless you need the money sooner, in which case you can use a market order.
5. Use your newfound USD to buy shares of all those lucrative U.S.-based stocks you've been hearing about.
6. When you are ready to sell and convert back to CAD, simply reverse these steps!

What are the risks?

The main risk here is that the amount you're exchanging is too small as to be worth it. When using Norbert's Gambit, your main fees will be commission from buying DLR and selling DLR.U and from the bid-ask spread if you used a market order. Generally, I would recommend doing this on amounts of more than \$3,000.

The other risk is that the CAD-USD FX rate changes while your shares are journaling over. For instance, the USD might be worth CA\$1.26 when you journal over the shares. However, after four days, the USD might appreciate to be worth CA\$1.28. This will lower the value of DLR.U, which reduces the amount you receive in USD.

The Foolish takeaway

Savvy investors can use the DLR ETF to perform Norbert's Gambit at most Canadian brokerages. Using Norbert's Gambit on a large amount of CAD can help you obtain USD without paying the pesky 1.5-3% currency exchange fee imposed by banks or brokerages.

CATEGORY

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Date

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