



Canadian Investors: How to Buy U.S. Stocks With Zero Commissions or Currency-Conversion Fees

Description

Buying popular U.S.-listed stocks, like **Amazon**, **Apple**, **Tesla**, **Alphabet**, and **Microsoft**, isn't always easy for Canadian investors. Because we generally get paid and invest in CAD, Canadians have quite a few hoops to jump through.

Up first is the currency-conversion fee. Most brokerages will charge anywhere from 1-2% on top of the spot foreign exchange rate to convert CAD to USD. This can add up over time to ding your returns.

Moreover, even if you use [Norbert's Gambit](#) to exchange CAD-USD for cheap, you still have to pay commission, trading costs, and wait some amount of time for the trade to settle.

However, a cool new set of investment products from **CIBC** listed on the **NEO Exchange** makes investing in popular U.S. stocks very easy and affordable. Let's take a look!

What is a CDR?

CIBC and the NEO Exchange teamed up to issue a series of **Canadian Depositary Receipts** (CDRs). You can think of these CDRs as instruments that represent ownership of shares in various U.S. companies.

For example, buying an AMZN CDR would equal to ownership of a certain amount of AMZN shares. The specific number of shares that each CDR represents is called the "CDR ratio." CDRs act like stocks — they trade on an exchange, pay out dividends, and even give voting rights to the shareholder!

Currently, the NEO Exchange has 23 popular, large-cap, blue-chip U.S. stocks listed as CDRs on its [webpage](#). I expect many more to come, but the current roster represents some of the best-performing and hottest stocks on the market right now.

What are the benefits of CDRs?

For investors, the largest benefit is that CDRs trade in CAD. For example, an AAPL CDR can be bought and sold with CAD, whereas AAPL stock can only be bought with USD. This saves you the need to convert CAD to USD, which eliminates currency exchange costs.

Moreover, CDRs often trade at much lower prices compared to shares. If you can't afford the US\$1,017 current share price of TSLA, you can buy a CA\$33.20 TSLA CDR instead, giving you exposure to the stock at a much more affordable price. This is especially suitable for investors with a smaller account.

CDRs are also highly liquid. As noted earlier, the underlying stocks they track are popular large-cap U.S. stocks contained in the S&P 500. This gives CDRs excellent liquidity and a good bid-ask spread, despite the lower volume traded of the CDR itself.

Compared to CAD-listed ETFs that hold U.S. stocks, CDRs do not have any management fees. However, like any other U.S. investment, CDRs are subject to a 15% foreign withholding tax on any dividends paid out. This is an unavoidable drag, unless you [hold U.S.-listed stocks directly in an RRSP](#).

What are some of the risks of CDRs?

CDRs have the same risks as owning stocks — if the value of the underlying stock falls, the value of the CDR will fall as well. Before you invest in a CDR, make sure you do the appropriate due diligence on the underlying company's fundamentals and audited financial statements.

Because CDRs trade in CAD but track underlying stocks that trade in USD, fluctuations in the CAD-USD exchange rate also need to be considered. A simple way to understand this relationship is as follows:

1. If the CAD strengthens, each CDR will represent a larger number of underlying shares.
2. If the CAD weakens, each CDR will represent a smaller number of underlying shares.

Because currency fluctuations will only affect the CDR ratio (and not the CDR's price), the CDR is said to be "currency hedged." Your returns will only reflect the performance of the underlying stock.

The Foolish takeaway

CDRs offer investors a capital-efficient and cost-saving method of investing in U.S. stocks. Couple this with a zero-commission brokerage, like [Wealthsimple Trade](#), and you have a winning formula for buying U.S. stocks cheaply and easily!

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