My Favourite U.S. Stock for Canadians to Buy Right Now

Description

Many Canadian investors should diversify their portfolios geographically. Indeed, home-country bias can work against you, especially if you're overexposed to the TSX Index, which is not very diversified to begin with. With so much energy, financials, and materials exposure on the TSX, it's tough to find the other sectors to take your portfolio diversification to where it needs to be. The tech and consumer staples are few and far between on the TSX Index. And while there are some pretty good ones on this side of the border, I think it just makes sense to obtain a bit of U.S. exposure, given the many options for Canadian investors to consider.

With the loonie rising to just shy of US$0.78 on Monday, I think investors may wish to take advantage of the relative strength to come. The U.S. dollar has been incredibly strong in recent months. But this could change in a hurry, especially if the Bank of Canada (BoC) shocks to the upside come its next rate-hike day again. Personally, I think the U.S. dollar may be in a spot to weaken such that the Canadian dollar may hit the US$0.80-0.82 mark again. If it does, investors may wish to make the swap and take advantage of the opportunities in the S&P 500.

Betting on the asset managers

Currently, I'm a big fan of the alternative asset managers. **Blackstone** (NYSE:BX) is an intriguing option following its 37% drop from peak to trough. Undoubtedly, **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) is a Canadian alternative asset manager that's also a great pick. That said, it's important to know the differences between the two firms before backing up the truck on either.

Though I'm not against owning just BAM stock, I think there are benefits to holding both, as the appetite for alternative assets looks to continue increasing with time.

Blackstone

Blackstone isn't just an American version of Brookfield. It's a pretty asset-light asset manager that is incredibly diversified. With north of US$680 billion in assets under management (AUM) and an intriguing credit and insurance business, Blackstone is a rare gem that has the ability to dodge and weave past coming economic storm clouds.

Recently, investors are jittery over management's warning that sales will slip as we approach a potential recession. I think the post-news reaction (6% dip) was overblown and think management is prudent to err on the side of caution when it comes to the near future.

As valuations fall further, I'd look for Blackstone to continue pursuing mergers and acquisitions. The firm paid around US$48 billion on deals, with various REIT (real estate investment trust) takeovers, including the likes of Preferred Apartment Communities.

With a trusted name in the industry and an enviable real estate division, Blackstone is a wide-moat solution viewed as a go-to by many high-net-worth clientele. At writing, shares of Blackstone are trading at 18.7 times price-to-earnings (P/E) and 6.9 times sales (P/S), both of which are well below investment service industry averages.

Brookfield

Brookfield is a different flavour of asset manager. The Canadian darling is well diversified, but management has expressed interest in spinning off its asset management division in the past. Undoubtedly, Brookfield is heavier in assets than Blackstone.

A spin-off to become more asset-light could pave the way for multiple expansion. In any case, investors shouldn't expect Brookfield to make major moves anytime soon. Like Blackstone, Brookfield has the balance sheet to pursue deals amid the broader contraction in the market.

At writing, Brookfield stock trades at 1.8 times price to book (P/B), which is well below the industry average P/B of 3.5. With a growing 1.1% dividend yield, Brookfield is a great choice while shares attempt a comeback.

CATEGORY

1. Investing

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1. NYSE:BN (Brookfield Corporation)
2. NYSE:BX (The Blackstone Group L.P.)
3. TSX:BN (Brookfield)

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