Your Complete Guide to Buying US Stocks in Canada

Description

For Canadians, the domestic stock market is a great place to begin investing. The TSX is full of high-quality, blue-chip, dividend-paying companies Canadians know and love. Buying Canadian stocks can be a good way to learn the ins-and-outs of how to buy stocks in Canada.

However, the Canadian stock market only comprises 3% of the world by market capitalization weight. Outside of Canada, there's a few thousand international stocks worth investing in.

Of particular interest is the U.S. stock market, which accounts for 60% of the world by market capitalization weight. This guide will teach you the ins-and-outs of buying U.S. stocks as a Canadian.

Can you buy US stocks in Canada?

Absolutely! Canadians are able to buy U.S. stocks using a variety of online brokerages the same way they buy Canadian stocks. Depending on your brokerage, the list of available U.S. stocks may differ. In general, U.S. stocks listed on well-known exchanges like the New York Stock Exchange (NYSE) or NASDAQ are available.

Other U.S. stocks, like penny stocks that list over the counter (OTC) may not be available on some Canadian brokerages. Some brokerages might impose liquidity and volume requirements, so thinly traded or unpopular U.S. stocks might not be available.

In general, if you're trying to buy mid-to-large cap U.S. stocks, you shouldn't have a problem finding them on Canadian brokerages.

Benefits of owning US stocks

The primary benefit of owning U.S. stocks is diversification. By buying U.S. stocks, you can reduce the risk of your portfolio underperforming if your Canadian stock picks do poorly for an extended period of time. The Toronto Stock Exchange (TSX) and NASDAQ markets often take turns outperforming each other. For example, from 2002 to 2009 the Canadian market did better, while the U.S. soared more from 2011 to 2021.

The Canadian stock market is heavily concentrated in the energy, financials, and industrial sectors. In contrast, the U.S. stock market has a higher allocation of technology and communication sector stocks. Holding a proportion of U.S. stocks can help your portfolio when certain Canadian market-heavy sectors do poorly, like when the energy sector tanked during COVID-19 while the U.S. tech sector soared.

Another reason to buy U.S. stocks is to not miss out on growth. Numerous U.S. stocks like Apple, Microsoft, Alphabet, Berkshire Hathaway, and Amazon have led the world's stock market indexes while continuing to post strong earnings. Not investing in the U.S. means missing out on 60% of the world's investable market, and the performance of mega-cap stocks.

Risks of trading US stocks

The U.S. stock market is very transparent and regulated compared with those in many other countries. Like in Canada, publicly traded U.S. companies on large exchanges must file periodical financial statements and disclosures.

The biggest risk with trading U.S. stocks is actually foreign exchange risk. Because U.S. stocks trade in USD, Canadian investors need to convert CAD over. In doing so, they can incur high fees with some brokerages, anywhere from 1% to 2.5% in some cases.

Moreover, if you hold U.S. stocks and the CAD suddenly appreciates, you've lost value. If you sell for USD and convert back to CAD, you could be left with a loss given that the CAD is now worth more than when you first exchanged it.

Canadians can mitigate some of these risks by investing in CAD-denominated exchange-traded funds (ETFs) that hold U.S. stocks, or by buying Canadian Depository Receipts (CDRs). Using a brokerage that offers zero-spread CAD-USD conversions is also a good idea.

How to buy US stocks in Canada

If you've decided to buy U.S. stocks in Canada without using a Canadian-listed ETF or CDR, the following steps will help you get started.

1. Open a brokerage account and fund it

The first step is to open an account with one of Canada's many online brokerage platforms. There are many options out there, so make sure you pick the one with the best combination of features you're looking for. Some of these brokerages offer zero-commission trading, or low conversion fees for U.S. dollars. After you've opened your account, connect a bank account to fund it.

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Trading Commission	$8.75
Account Maintenance Fee	$25/quarter Waived if: it is less than one quarter since account opening, you have $25,000 or more in assets, completed 2 commissioned trades in the last quarter, completed 8 commissioned trades in the last 12 months, set up a $100/mo recurring deposit, qualify for the Young Investor offer.

- Pros & Cons
- Fees & Charges
- Sign-up Offer

Pros

- User-friendly platform
- 105 commission-free ETFs
- Strong suite of research and tools

Cons

- Platform is not fully commission free
- Charting tools are not as robust as those on some competing platforms

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- Up to $2,000 in cashback for opening new accounts, based on funding at least $5,000. $50 in cashback for new clients for funding just $1,000. Use promo code CASHBONUS2023. Offer ends March 1st, 2023.
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Depending on the brokerage, you could open a taxable account, Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP), Locked-In Retirement Account (LIRA), or Registered Education Savings Plan (RESP).

2. Convert CAD to USD

The next step is to convert your CAD to USD. Your brokerage should have a currency conversion option. Pay attention to the “spread”, or the difference between the spot foreign exchange rate and your brokerage’s in-house rate.

For example, if $1.00 in CAD can buy $0.75 USD at the spot rate, but your brokerage is only offering you $0.70, they’re making a profit off the spread. You may also be charged an additional commission per transaction. To minimize this, select your brokerage carefully.

3. Buy your favourite U.S. stocks

Once you have a USD balance in your account, you can search for U.S. stocks using their ticker name. For example, if I wanted to purchase shares of Apple, I would search “AAPL”.

From there, you can indicate how many shares you want and then place an order. Your order can be placed as either a market order (immediately fills your order at the best available price) or a limit order (which only fills your order at the price you specify).

Canadian tax implications of buying U.S. stocks

The Internal Revenue Service (IRS) imposes a 15% foreign withholding tax on dividends from U.S. stocks. For example, suppose you held a U.S. stock that paid a 5% annual dividend yield. After the 15% foreign withholding tax, that dividend yield would be reduced to 4.25%.

There are three ways to avoid this tax:

1. Hold the U.S. stock in your RRSP, where it is exempt from foreign withholding tax.
2. Hold the U.S. stock in your taxable account, where you can avoid double taxation on dividends by claiming a foreign tax credit.
3. Buy U.S. stocks that don't currently pay dividends, like Berkshire Hathaway and most tech stocks.

Aside from this, you're subject to the usual CRA rules for capital gains/losses if you sell for a profit/loss in a non-registered account.

Should you buy US stocks in Canada?

The answer to this question depends on your risk tolerance and investment objectives. Passive investors might be alright just buying a Canadian-listed ETF that tracks a U.S. stock market index, such as the S&P 500 or NASDAQ 100. These investors don't like to actively invest by picking stocks, so a U.S. stock index fund will do. Investors who opt for this approach won't need to exchange CAD for USD.

However, if you want to try stock picking for a chance at beating the market, then buying U.S. stocks could be a good idea. By buying U.S. stocks, you gain exposure to some notable companies that see heavy price action around earnings reports and economic releases. Many historically outperforming stocks have come from the U.S. market.

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