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INVESTORS MISSING OUT ON GLOBAL OPPORTUNITIES: TD ECONOMICS

(Toronto) Convincing Canadians to consider foreign investments can be a hard sell, especially given the remarkable performance of the S&P/TSX in recent years, but a TD Economics report published today outlines why Canadians may miss out on financial opportunities if they limit themselves to domestic investments.

"Understandably, Canadians feel a greater sense of security in the domestic corporate landscape, where the companies are more familiar and the Canadian dollar-dominated investments are insulated from foreign exchange risk," said Craig Alexander, Deputy Chief Economist of TD Economics, who co-authored the report with senior economist Beata Caranci.

Nevertheless, having foreign exposure in one's portfolio is also prudent. "International investments can provide access to additional sectors and growth prospects, higher dividend yields and attractive valuation plays. While a floating Canadian dollar can impact returns, there are ways to find shelter, or even profit, from exchange rate movements," said Alexander.

In the report, TD Economics outlines its top 10 reasons for investing internationally.

1. Canada is a small market
Canada represents only 3.5% of global equities and a mere 2% of the world economy.

2. The Canadian market is dominated by a few sectors.
Energy and financial companies represent an overwhelming 60% of the S&P/TSX Composite Index, with the weighting split almost evenly between the two. One of the key tenets to financial planning is diversification and many international stock indexes are more balanced than the S&P/TSX.

3. Some industries are not represented in the Canadian market
Some industries are virtually not represented in the S&P/TSX and the corporate choice within selected other sectors is extremely limited. "Individuals looking to invest in pharmaceuticals, health care, defense or information technology can find many more opportunities abroad than in the domestic market," said Alexander.

4. Canadian market is highly cyclical
The high weighting of commodities leaves the S&P/TSX vulnerable to cyclical swings. "Almost half of the index is impacted by changes in energy and non-energy commodity prices, which are historically volatile," said Alexander.

5. International markets provide diversification
There have been claims that international equity markets are becoming more correlated, limiting their ability to provide the necessary diversification. Global markets have increasingly moved in sync since 2001. However, this is a recent phenomenon and there is no guarantee that it will persist. Globalization is not a new phenomenon and the correlation in equity returns between the S&P/TSX and international indexes has differed greatly in the past. Moreover, "even if markets are more correlated, they will not move in lock step," said Alexander. The industry composition within benchmark equity indices is

different. Central banks and governments do not move in perfect tandem with monetary and fiscal policy. Regional trends vary, with the recent China and India boom being a good contrast to more sluggish economic conditions in some segments of Europe.

6. International valuations look attractive
The most fundamental rule in investing is buy low and sell high. Unfortunately, Canadian stock valuations are no longer cheap, while price-to-earnings ratios are often lower abroad.

7. Higher dividend yields can be found abroad
Dividends are a critical source of shareholder returns over the long haul. The dividend yield for North American stock exchanges has averaged 1.5-2% over the last decade, paling in comparison to European exchanges. For example, the dividend yield on the U.K. benchmark stock index has ranged between 3.5-4% in the past three years.

8. International structural changes are positive
A number of countries have made significant strides to improve their competitive positions on the global stage. Japan has made great progress in dealing with their economic challenges, while the improvement in Europe has been more modest, but still in a positive direction. Over the long haul, productivity is a prime driver behind profit growth, and the U.S. track record has been outstanding.

9. Emerging markets provide high growth opportunities but at significant risk
There is a fascination with the high growth prospects of emerging economies, especially India and China. "While these rapid growth economies offer the possibility of high stock returns, investors should be cautious in their approach to these investments as the markets are very volatile and fraught with risk," said Alexander. One way for investors to tap these markets with less risk is to invest in companies that are located in well developed and better regulated markets, but are still leveraged to rapid growth economies. For example, Japan is the number one exporter to China.

10. Don't be deterred by FX volatility
A common refrain is that Canadians don't want to invest abroad because the foreign currencies might weaken against the Canadian dollar wiping out any capital gains. "The risk of foreign exchange volatility should not be a deterrent to international investing," said Alexander. TD Economics believes that the upside to the currency is limited to a few cents. There are also many financial products that allow investors to hedge their exchange rate risk, including currency-neutral mutual funds geared to foreign markets.

The TD Economics report "10 Reasons Canadians Should Invest Abroad" can be found at www.td.com/economics.

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