

# Pearlstein's Corner





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## How Does the Value of the Canadian Dollar Affect my Portfolio?

Since trade disputes are making headlines and Canada relies on exports for 30% of its GDP, in this newsletter I'm going to focus on a question I often get from my clients. Why is the Canadian dollar so low compared to the US dollar, and how does that affect my portfolio?



Looking back about 35 years, since 1984, the Canadian dollar has ranged from 62 US cents to \$1.10. For most of those years, the Canadian dollar has been between 70 and 80 cents. It's been lower and higher, but not for too long. And it has tended to come back to that range.

This 70 to 80 cent range could be described as the Canadian dollar's fair value over these years. As I'm writing this, it's right in the middle, about 75 cents. So, I'm comfortable saying that it can move 5 cents either way, and still be within its normal range.

### What causes major currency movements?

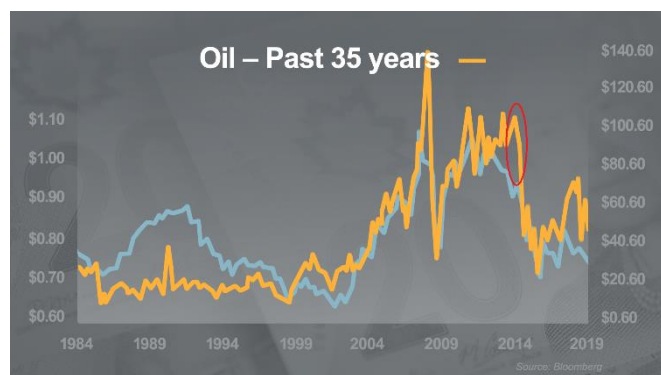
Currency traders will tell you there are multiple reasons, but I've boiled it down to two big ones:

1. The price of oil and commodities
2. Interest rates

### Oil and Commodities

Our loonie takes flight when the prices of oil and commodities, are high. Oil and commodities are mostly priced in US dollars, so when they go up, so does our dollar.

Five years ago, when oil was at \$100 a barrel, our dollar was at 94 cents. Today oil is in the \$55 range, and our loonie is back at 75 cents.



### Interest Rates

Investors will chase higher rates of return around the world. When our interest rates are more attractive than others, investors buy Canadian dollars to invest in Canadian bonds, for example.

It also works in reverse. If the US central bank tightens its interest rate cycle earlier than the Bank of Canada, some foreign capital will flow out of Canada and into the U.S. seeking those higher rates. That causes our dollar to go down.

## Impact on Your Portfolio

Now, let's look at how this could affect your portfolio. If you are diversified outside of Canada and hold US securities, these currency swings will have an impact on the day-to-day value of your portfolio and your return when you sell.

Ultimately, the question is whether or not you should protect yourself from currency swings in your investment portfolio. Just as each of my clients has a different tolerance for risk, the same applies to how you feel about your currency exposure.

There are a number of strategies you can use to minimize your risk to currency fluctuations and take advantage of any potential upside. Some are relatively easy, others a bit more complex. I'm happy to review them with you. I invite you to call or email me to start a conversation about currency and your portfolio.

This newsletter is also available in a video format. Visit our website to see other videos and podcasts: <https://ca.rbcwealthmanagement.com/pearlstein.group/private-clients-podcasts>

Questions? I look forward to hearing from you.  
Call me at 416-733-5257 or email [mark.pearlstein@rbc.com](mailto:mark.pearlstein@rbc.com)

Do you know someone who should read this?

Some of my clients have mentioned that they've shared my newsletters with other family members, friends or colleagues. If you know someone who might benefit from this, why not pass it on?

## Introduction

This quarter, we would like to take the opportunity to welcome our newest member on the team as a licensed investment representative, Michelle Chen.



She began her career with RBC Dominion Securities in 2016 shortly after completing her Business of Commerce degree from Ryerson University. She is responsible for all the day-to-day administrative activities for the team. Aside from work, Michelle enjoys travelling, watching movies and occasionally painting – in particular, watercolour art.

Please contact Michelle for all administrative requests at 416-733-5697 or [michelle.w.chen@rbc.com](mailto:michelle.w.chen@rbc.com)

Fun fact: Michelle recently visited Peru to conquer the 42KM trek on the Inca Trail to Machu Picchu. In addition to the hike, she also climbed up Huayna Picchu Mountain and took an exciting horse ride up the Rainbow Mountain. She had an amazing once in a lifetime experience and is looking forward to her next adventure to summit Mount Fuji in Japan.



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