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Loonie parity blues

Garry Marr, Financial Post

Jim Young, Reuters Files

I'm not feeling too happy about parity. That's because the exchange-traded funds I hold in my RRSP are tracking some major indexes in the United States.

The S&P 500 may be hot but my ETF tracking it is lukewarm. The return from my "cubes" tracking the Nasdaq 100 is also unspectacular because of the strong appreciation of the loonie. I bought my Nasdaq ETF before the technology bubble crash. It is the part of my portfolio I compare to the lost city of Atlantis -- forever underwater.

It seems just yesterday that Canadians were pestering the government to eliminate limits on foreign content in RRSPs. The government finally did so in 2005, but for the most part, Canadians continue to invest in companies in their own backyard.

And these days, those looking to take their portfolio south of the border want to avoid the currency risk from a rising Canadian dollar.

Heather Pelant, head of business development, exchange-traded products, for Barclays Canada, which distributes iShares, says funds that are hedged against the Canadian dollar have never been more popular.

She says the popularity of her firm's new currency-hedged U.S. high-yield products show that people are concerned about currency fluctuations. "[Canadians] are coming back into the market, but they are interested in yields and they want it hedged."

Essentially, these hedged financial instruments keep your investment in Canadian funds even though it's a basket of U.S. stocks that you own. Therefore, you have no "currency risk."

One iShares fund hedges the Russell 2000 index, which means you get access to a basket of U.S. small-cap stocks, but with no apparent currency risk. It also has a fund that hedges the S&P 500 -- the one I wish I had -- and an international index fund that is hedged against the dollar.

"Canadians are particularly sensitive about the U.S.-Canadian dollar issue," Ms. Pelant says.

Of course, buying a hedged ETF leaves you exposed to the Canadian dollar the other way. If the greenback goes up and you own that hedged S&P ETF, you risk losing out on any gains the U.S. dollar might make.

David Salloum, an Edmonton-based certified financial planner, says he has plenty of clients asking questions about buying funds that hedge, but he stresses they have to stick with their investment plan. And that includes deciding whether they want exposure to currency risk.

But he adds that parity opens up some investing options if you believe the dollar is going to stay at its current lofty level. "A dollar at par means I can start looking at some U.S. stocks."

CIBC World Markets economist Benjamin Tal says there is something called "home court advantage" that drives Canadians to keep their money at home and in their own currency.

"You invest in your economy because you feel more comfortable and the currency is part of that now," says Mr. Tal, adding the rise of the loonie has not resulted in a "significant reduction" in the amount Canadians are investing abroad.

But now that the dollar is at parity, he expects people may change the way they invest. "I expect to see more people hedging. It really hasn't happened yet, but the parity talk is going to trigger this movement. I wouldn't be surprised over the next few months to see more activity, not just at maximizing returns, but also protecting from currency movement."

Call me crazy but I want exposure to the world's biggest economy. I'm staying unhedged with my U.S. investments.

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Dusty Wallet Always check your credit-card statements closely. DW's due date fell on April 2, the Good Friday holiday. A payment was made on March 31 -- two business days early--to avoid the high interest rate. The payment didn't get processed until April 5. Two months running now, payments have been made ahead of the due date only to be processed days later. Interest charges were added, and removed only after much complaining.