

# The Fortnighter

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As most investors are aware, stock markets took it on the chin a bit this week. And has often been the case over the past couple of years, a “made in Canada” portfolio suffered significantly more than a “made in the U.S.A.” portfolio.

This wasn’t the case for much of the decade before 2012. Canada’s economy and stock markets handily outperformed those of most developed countries as China’s ascent to being the world’s #2 economy propelled commodity prices (and Canada’s commodity-heavy markets) ever higher. A glance at some statistics shows that the TSX 60 Index returned over 9% for the 10 years ending December 31, 2012. The US S&P 500 Index? Only half that: 4.6%.

In the past year, however, that performance difference has been almost perfectly reversed. And the reason is that the composition of the US stock market is dramatically different from that of ours.

In Canada, the banks are king. We have a huge financial services industry dominated by the “big 6” banks. Include the other financial services businesses like insurance (Sunlife, Manulife, et al) and investments (Investors Group, AGF, etc) and the financials make up almost 35% of the TSX 60 Index. Energy is next at 25% and Materials (i.e. base metals, potash, gold) are a healthy 18%. So, commodity stocks make up some 43% of the TSX 60 Index.

With the US S&P 500 Index, the financials services stocks are less than half the weight they are in Canada – at about 16%. A similar ratio exists with Energy stocks – at 11%. But the real difference is in the Materials sector – which represents less than 4% (!) of the US stock market.

So, what makes up the difference in the US market? Information Technology, Health Care and Consumer Discretionary & Staples – sectors that barely exist in Canada. Of the 10 largest US companies, 4 are in the IT space – Apple, Microsoft, IBM and Google. And only two companies in the S&P 500’s top 10 come from the financials, energy & materials group - and neither of them is a bank (it’s Exxon and Chevron). JNJ, Procter & Gamble and Pfizer make up the rest of the top 10.

So, as investors, what do we learn from this? We live in Canada, so it makes sense that our portfolios have a strong Canadian bias, right? And, because of US withholding taxes, receiving dividends on Canadian stocks is generally more attractive than receiving U.S. stock dividends....

But it occurs to me that had we simply split our stock investments equally between the TSX 60 and the S&P 500 Index over the past 10 years the result would have been about a 6.9% overall return. That’s not bad. And the past decade has not exactly been a barn-burner for the markets.

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