



Staying Home has its Merits

Counsel Portfolio Services added three new Canadian-focused investment solutions to its line-up: Counsel Canadian Conservative Portfolio, Counsel Canadian Balanced Portfolio, and Counsel Canadian Growth Portfolio. Each new portfolio adopts a strategic asset allocation strategy and has at least 70% of its assets allocated to Canadian securities. In addition to the domestically-biased, income-oriented Counsel Regular Pay Portfolio and Counsel Income Managed Portfolio (a tactical strategy), these solutions are designed to give you more choice and the ability to better target your financial goals.

It comes as no surprise that many investors – regardless of where they live – tend to tilt their portfolios towards their home countries. It's a sentiment referred to as the 'home-bias'. Canadians are no different.

There are several reasons why people may choose a Canadian-centric portfolio: currency risk, preferential dividend tax treatment and familiarity-bias rank among the top. A bias to strong historical performance may also be a contributing factor.



CURRENCY: Currency fluctuations can have a meaningful impact on the short-term performance of a portfolio. As such, an investor who is predominantly invested in Canada is able to take much of this risk off the table. “Currencies can be a problem,” says Kevin Hurlburt, Executive Vice President, Products and Services at Counsel Portfolio Services. “Currencies themselves can be influenced by significant factors, and don’t always correct back to fundamentals within a time-frame that is acceptable to many investors,” he explains.

“As an industry, we talk about long-term investing, but the words ‘long-term’ mean different things to different people. Given a shorter time horizon, it’s a challenge because currencies can move significantly out of line relative to where they should be, and they can stay that way for quite some time.”

To minimize this risk over the shorter-term, you want to ensure that you have a hedging strategy in place. “Over the long-term, currencies do tend to equalize,” he adds. “Foreign currency risk will reduce as a major factor the longer you are able to hang onto your portfolio, but not everyone has 15 years or more as their time horizon.”

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PREFERENTIAL TAX CREDITS: Canadian dividends enjoy the best tax treatment of all income streams. So, if you're income-oriented and invested in a non-registered portfolio, the dividend tax credit for eligible Canadian dividends is a strong incentive to keep your portfolio weighted towards Canadian dividend payers. It provides income stability and reduces the impact of fluctuations on your portfolio's performance caused by other factors. Foreign dividend income is not eligible for this tax credit and may be subject to withholding tax.



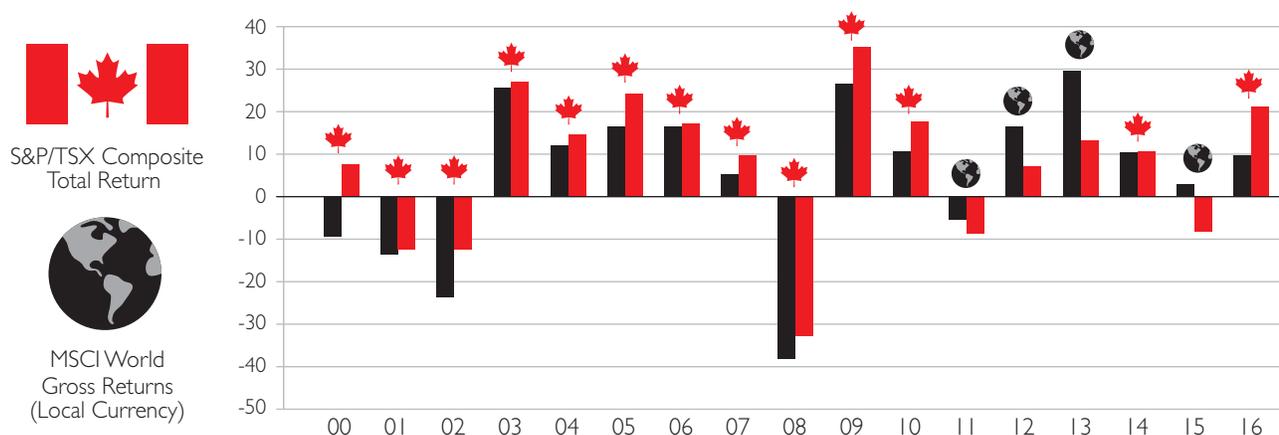
FAMILIAR INVESTMENTS: Your preference for staying home may be rooted in a behavioural bias. Was Canada the first place you invested and was it a good experience? You may, consciously or not, be anchored to that reference point – and using this first experience to guide your choices. Perhaps, you simply prefer to invest in companies that you know and deal with on a day-to-day basis?

The constant exposure to companies you are familiar with, and knowledge of Canada's comparatively strong corporate governance structures can have an influence on how you invest. This inclination to invest in that which you're most familiar with is called *familiarity bias*, and it gives investors a degree of comfort.



PAST PERFORMANCE: This is another influencing factor. "Canada is certainly a great place to invest. In the case of the stock market, in particular, Canada has shown remarkable resilience, outperforming in 13 of the 17 calendar years since the beginning of this century," notes Kevin (see chart 1).

CHART I: CANADA VS. THE WORLD – SINCE 2000



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KNOW THE RISKS

Relying on historical performance should not be a core reason for investors to stay home. There are caveats to be considered.

There are several reasons why Canada has fared well in the past, Kevin explains. Relative to other markets, Canada was less impacted by the 2000-2002 tech-wreck because of its comparatively lower exposure to technology companies. In the recovery years that followed, higher oil prices drove Canada's performance. Canada also emerged from the 2008 financial crisis fairly unscathed due, in part, to the strength of our financial system. "These were some important factors, forces which may not necessarily be repeated," he adds citing why Canadians would consider diversifying.

Studies show that diversification reduces risk by spreading it across geographies and asset classes so no one single event is able to derail your investment plans.

It's important to recognize that the Canadian equity market is small relative to major world markets. In terms of market capitalization, Canada accounts for less than 4% of the world's total market cap, while our neighbour to the south weighs in at just under 60%¹. Because of this, plus the fact that close to 75% of our market is concentrated to just a few economic sectors – financials, energy, and materials – Canadians who stay home may be missing out on opportunities to invest in great companies elsewhere and may sacrifice some returns in the long-run.

Similarly, when looking at fixed-income opportunities, he says "investors could enjoy better corporate bond yields if they were to include the North American market as a whole."

Beyond that, Kevin adds, "if you look at where growth is coming from today, Canada is not the strongest performing economic or equity market in the world. So, if you're excluding global markets from your portfolio, you want to make sure you're still finding ways to participate in the growth."

The Counsel Canadian Strategic Portfolios have an exposure of up to 30% to foreign equities, including exposure to higher yielding U.S. dollar fixed income securities to provide investors with some downside protection. To minimize currency risk, we've added a dynamic currency hedge strategy on the portfolios' U.S. dollar exposure.

CHOOSE A STRATEGY THAT FITS YOUR PREFERENCE, GOALS, AND OBJECTIVES

Choosing the right investment strategy or portfolio allocation boils down to several factors, including your investment goals, personal preferences, and level of tolerance for risk. "The informed investor should understand that, over the long term, investing with a more global perspective gives you opportunities for greater diversification and greater enhancement of returns through access to a much broader selection of investments and markets."

Still, if a Canada-centric portfolio is right for you, there are ways to help you achieve your personal goals while respecting this personal preference. Working with an Advisor to determine exactly what is right for you as an investor is a key part of picking an appropriate portfolio.

ABOUT COUNSEL'S INVESTMENT SOLUTIONS

As a comprehensive portfolio service, Counsel Portfolio Services offers investors a wide range of investment solutions (core strategies: strategic, tactical, retirement) to help target and reach their specific investment goals. Each Counsel portfolio is carefully crafted and optimally diversified through careful research and analysis of long-term market trends and expected asset class returns. Depending on the type of asset allocation strategy, each portfolio is rebalanced at regular intervals to maintain their optimal allocation. The investment specialists appointed to manage each mandate within a portfolio is selected after extensive research to ensure they are right for their mandate and that they complement the other investment specialists on a portfolio. This allows us to avoid unnecessary investment overlap and manage the overall risks within a portfolio.

Ask your Advisor about the investment strategy
or portfolio structure that can best target your
investment goals and objectives.

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I. Source: MSCI World Index, Morningstar Direct.

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The foregoing list of important risks, uncertainties and assumptions is not exhaustive. Please consider these and other factors carefully and not place undue reliance on forward-looking statements. The forward-looking information contained in this report is current only as of the date of this report. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

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