

## Investing internationally adds diversification value

Successful investors know the importance of being diversified – having a selected mix of investments across varied asset classes to try and maximize return and minimize risk. In fact, many Canadians practice diversification within their domestic or North American portfolios, but they may be missing what the rest of the world has to offer. After all, investment choices within Canada represent only 3% of the world’s market capitalization.

Investors who want to be truly diversified (and enhance the overall return potential of their portfolios) should consider the following benefits of global investing.

- **Exposing your portfolio to many different economies can reduce the risk associated with being in just one economic environment.** Economic cycles are what ultimately drive valuations within equity and fixed income markets, and economies in different countries or regions are not necessarily expanding or contracting at the same time. This timing difference in business cycles can present opportunities within one region and offset negative performance in another.
- **An international investor can access the best company within any particular industry.** Investors who just stay at home may not have access to some of the world’s best financial, technology, pharmaceutical and food companies. This ability to find “*best company within any particular industry*” investments can enhance return potential.
- **Many foreign markets are less efficient in valuation than developed North American markets.** This inefficiency can provide attractive return potential to the more sophisticated investor looking in the right places, in particular in the emerging world where long-term growth rates can be more than double those available domestically. While this growth comes with greater levels of risk, a diversified emerging markets approach, managed by an experienced professional, can help an investor reap these opportunities.
- **Many international growth opportunities can be found in traditional areas, such as infrastructure, that are easy to understand for any investor.** The emerging world today resembles, in many cases, the U.S. economy of the late 19<sup>th</sup> century. This is when the best investment opportunities were in steel, telephone, electricity and transportation companies. It’s easy for investors to understand companies involved in such early stages of development. Seeking similar growth opportunities in Canada may mean participating in industries that can be harder to understand (such as high technology).
- **International investing can provide a hedge against inflation.** For Canadians, our high standard of living depends, to some extent, upon access to imported goods from foreign markets. Unfortunately, this dependence can expose us to risks associated with imported inflation.
- **Investing outside of Canada can provide a currency hedge in case our currency weakens due to political or economic concerns.** Strong foreign currencies can provide a boost to the overall return of investing internationally. Alternatively, a weak currency can reduce the return.



## Getting started

Today, investing internationally is as easy as it is to stay at home. Often Canadians first look to **U.S markets**. You might also consider **international mutual funds, listed, exchange traded funds** or **American Depository Receipts**, which represent shares in foreign companies. Or you can invest directly on **foreign stock exchanges**. Your ScotiaMcLeod Investment Executive can explain these options and help you build an international diversified portfolio that is right for you.

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