

# Sometimes the most profitable portfolio is a patriotic one

BY ROB CARRICK

**T**he Canadian stock market gets a real vote of confidence when portfolio strategist Wilf Hahn lays out his ideally diversified global portfolio.

"We're a little overweight on Canada," says Mr. Hahn, president of Hahn Investment Stewards & Co. "The [global] benchmark has Canada at a little more than 2 per cent of the total, but we're about double-weight. That puts us at about 4 per cent of the total portfolio."

Yee-haw. Four per cent. Ain't we something.

Like it or not, Canada is borderline insignificant in the global investing universe. In hockey terms, we're the Columbus Blue Jackets. In baseball terms, we're the Toronto Blue Jays.

And yet, we live and work in Canada and the vast majority of us will retire here. It makes sense, then, for us to invest here, too.

Here, we arrive at a question facing every diligent Canadian investor and investment adviser: How much of a balanced portfolio should be invested at home and how much elsewhere?

Unfortunately, that most loathsome of answers applies here: It depends. It depends on who you talk to, what asset allocation tools you use and how much risk you're willing to take on.

One certainty is that you want global exposure in your portfolio. By participating in global markets, you're in a position to make money while the Canadian market struggles. In 1998, the benchmark Canadian stock index lost 1.6 per cent while the main index for global stocks outside North America made 28 per cent in Canadian-dollar terms. U.S. stocks outperformed Canadian stocks routinely through the 1990s.

You've probably absorbed lessons like this from mutual fund industry

hype designed to sell global equity funds. But you've also likely noticed that in the past few years, global and U.S. equity funds have been just awful compared with Canadian equity funds.

The average global equity fund lost a compound average annual 1.8 per cent in the five years to Aug. 31, the average U.S. equity fund lost 6 per cent and the average Canadian fund gained 5.5 per cent. Home sweet home, indeed.

Here are two other recent developments to confuse your thinking about global diversification. First, the Canadian dollar's appreciation against its U.S. counterpart has squeezed the life out of many U.S. equity funds. And while traditionalists talk about breaking your equity holdings into Canadian, U.S. and global portions, the most dynamic markets these days are regional or country-specific. Think of China or India, for example.

So how do you divide up your money internationally?

While Mr. Hahn would only use a sprinkling of Canada for ideal global diversification, his mix for people who live and expect to retire here would be 70 per cent Canadian content and 30 per cent foreign. The same mix was recommended by Ranga Chand, an economist, mutual fund analyst and author of several financial books.

The 70-30 mix is convenient because the government caps the foreign content in your registered retirement plan at 30 per cent of book value. You can go beyond that using so-called clone funds -- foreign funds that count as domestic content -- but these products cost more than regular funds.

You can mix your 30-per-cent content between U.S. and global or international equity funds, or you can do as Mr. Chand suggests and just

choose a broadly diversified global fund with significant U.S. exposure. One example is the Trimark Fund, with close to 60 per cent of its assets invested in the U.S. market.

If you want to focus on a particular region or subcategory, say emerging markets or the Far East, then Mr. Chand suggests you go with a 5-per-cent weighting. First, though, make sure you can handle the ferocious ups and downs of these sorts of specialty funds.

"Always ask, what's the worst 12-month period this fund has delivered," Mr. Chand said. "What's the biggest loss?"

One other caveat he suggested is to make sure your core global fund doesn't already have a big weighting in whatever region you plan to focus on. Inadvertently bulking up on one particular region can blow a big hole in your portfolio.

Mr. Chand says that if he were to pick one foreign specialty fund to buy, it would be Asia. He's impressed by the maturing economies there that are being fuelled increasingly by domestic demand rather than exports.

"What we really like right now, and it's surprising to me, even, is emerging markets," Mr. Hahn says. Emerging markets are wickedly volatile in general, but he thinks they're as attractively valued as they have been in the past 15 years.

As for humble Canada, there's nothing wrong with having the bulk of your portfolio at home.

"When I look at Canada, what pleases me is that we're the only industrial economy that has both a current account surplus and a fiscal surplus," Mr. Chand said. "I think the fundamentals in Canada are excellent."