

Accessing U.S. Diversification Through Leading BMO Solutions

As our leading BMO analysts continue to confirm the need for greater U.S. exposure in investment portfolios, investors who haven't already, should consider increasing their overall portfolio weighting of U.S. securities – with less emphasis on Canada.

While recent economic data has been mixed, longer-term analysis continues to support the view that the U.S. will be a main source of relative growth, in terms of both economic and stock market performance, in the coming years. As noted in a recent report by Brian Belski, Chief Investment Strategist, BMO Capital Markets,¹ "It is time to face the facts – U.S. fundamentals remain poised to provide access to stability within an ever-increasingly volatile backdrop."

Global leaders in more sectors

Along with the positive forecasts on the U.S. economy backing the greater push towards U.S. investment, another key reason Canadian investors should consider diversifying into the U.S. is

the fact that the Canadian market provides over exposure to a couple of sectors – namely Energy and Financials – providing limited investment opportunities in Canadian companies that are global leaders; especially when compared to the more diversified U.S. market.

The Global Industry Classification Standard (GICS) classifies companies into one of ten sectors; specifically: 1) Consumer Discretionary, 2) Consumer Staples, 3) Energy, 4) Financials, 5) Healthcare, 6) Industrials, 7) Information Technology, 8) Materials, 9) Telecom and 10) Utilities. A well-diversified equity portfolio should contain stocks from most, if not all, of these sectors.

The table below shows how large-cap Canadian equities, as represented by the S&P/TSX Composite Index, stack up relative to those in the U.S., represented by the S&P 500 Index. As you can see, U.S. companies are more diversified across all sectors, and provide greater coverage of sectors poorly represented in the Canadian market, such as Information Technology. In

Canadian vs. U.S. Large-Cap Equities – Sector-by-Sector Comparison

GICs Sector	Index Weighting (%)		Canada Relative to the U.S.
	S&P/TSX (Canada)	S&P 500 (U.S.)	
Energy	21.4	8.1	112%
Materials	10.9	3.2	165%
Financials	34.5	16.3	244%
Telecommunications Services	4.7	2.3	-19%
Industrials	8.4	10.3	-48%
Utilities	2.2	3.1	-65%
Consumer Discretionary	6.6	12.6	102%
Healthcare	5.2	14.8	-61%
Consumer Staples	3.8	9.8	-88%
Information Technology	2.4	19.6	-28%

As of April 1, 2015. May not add to 100% due to rounding. Source: Bloomberg

In addition to providing Canadian investors with an excellent opportunity to capitalize on greater diversification, the U.S. is also home to many of the world's leading and best managed companies. For instance, global leaders such as Google, Apple and Cisco provide exposure to Information Technology; Johnson & Johnson and Abbot Laboratories add to Healthcare representation; and Coca-Cola and General Mills fill in the requisite Consumer Staple weighting.

On the other hand, Canadian stocks are unevenly represented across all sectors; namely, Energy, Financial and Materials, which together represent over 60% of the S&P/TSX Index. Clearly, investors who prefer Canadian stocks to the exclusion of more diversified markets, such as the U.S., are, perhaps unwittingly, overexposing themselves to undue risk, rather than building a more diversified and balanced portfolio.

BMO products providing optimal U.S. diversification

BMO Nesbitt Burns and our BMO Financial Group partners offer a number of leading products that allow you to diversify into the U.S. market. The following are among the leading options that you should take note of and discuss with your BMO Nesbitt Burns Investment Advisor.

BMO U.S. Equity Plus Fund managed by Brian Belski

The newly launched BMO U.S. Equity Plus Fund is managed by BMO Capital Markets, with Brian Belski as Lead Portfolio Manager. Brian is Chief Investment Strategist for BMO Capital Markets and is frequently quoted in the financial media. The Fund provides access to growth-oriented companies in the U.S. that have historically led market recoveries, while obtaining tactical exposures to Canadian blue chip companies. It is best suited for investors comfortable with a medium level of investment risk.

Leveraging the industry-leading research from BMO Capital Markets, the BMO U.S. Equity Plus Fund takes a bottom-up portfolio management approach in order to provide long-term capital growth by:

- Investing primarily in the equity securities of U.S. and Canadian large capitalization companies.

- Examining the financial statistics of each potential investment; looking for an attractive price and consistent earnings; and the ability to pay and sustain dividends.

U.S. Equity Portfolio – Available through BMO Nesbitt Burns Architect and BluePrint Programs

The U.S. Equity Portfolio, managed by BMO Asset Management Inc. U.S. (BMO AM), is available through BMO Nesbitt Burns' Architect and BluePrint programs. The Portfolio's goal is to maximize investment returns with low income needs, and is suitable for investors comfortable with higher risk. It is focused on quantitative modeling techniques combined with fundamental research, providing a disciplined and controlled investment process that is consistent and repeatable and is not subject to emotional bias.

BMO U.S. Market Exchange Traded Funds (ETFs)

BMO Financial Group offers a suite of ETFs that provide U.S. exposure in a number of key categories. Three important areas of coverage to consider are ETFs that provide broad market exposure, low volatility and dividends.

- **BMO Low Volatility U.S. Equity ETF (for low volatility)**
The BMO Low Volatility U.S. Equity ETF utilizes a rules-based methodology to select the 100 least market sensitive stocks from a universe of U.S. large-cap stocks. It is a good complementary holding for those that are more conservative and want some U.S. equity exposure.
- **BMO S&P 500 Index ETF (for broad market exposure)**
The BMO S&P 500 ETF is designed to replicate, to the extent possible, the performance of the S&P 500 Index. It provides convenient and efficient equity exposure to the largest and most liquid U.S. equities.
- **BMO U.S. Dividend ETF (for dividends)**
The BMO U.S. Dividend ETF is designed to provide exposure to a yield weighted portfolio of U.S. dividend paying stocks, and provides lower overall risk compared to the broad U.S. equity market. The ETF utilizes a rules based methodology that considers the three year dividend growth rate, yield and payout ratio to invest in U.S. equities.

Get started today

If you would like to discuss how you can better capitalize on the U.S. market – through one of the above mentioned products, or others – please contact your BMO Nesbitt Burns Investment Advisor.



¹ BMO Capital Markets US Strategy Weekly, 'Staying Home' (March 27, 2015), by Brian G. Belski, Chief Investment Strategist, bmo.cm.com

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