

How Global Investing Helps to Diversify a Portfolio

A truly diverse investment portfolio includes global investments. Yet many Canadian investors invest only within Canada or North America. The reasons range from a preference for the familiar to the fear of foreign currency exposure or the perception that investing outside of Canada is riskier.

Risks in staying close to home

In reality, this “home market bias” can add more risk to your portfolio’s long-term performance. With Canada comprising only 2.9 percent of the developed market, investors miss out on a world of opportunities by staying close to home. Plus, our domestic equity market is highly concentrated in resource and financial services companies, with the top ten holdings representing about 39 percent of the TSX. A portfolio with this concentration level can be more volatile, which means that it may experience greater fluctuations in its value, especially when markets decline.

What is global investing?

“There are various definitions of what constitutes global investing,” says Sukyong Yang, the Lead Portfolio Manager for Global Equities at Cumberland Private Wealth Management Inc., a privately owned Toronto-based investment management firm serving high net worth clients. “For us, a globally diversified portfolio can include investments in companies from anywhere in the globe spanning world class leaders in mature economies trading on established indexes as well as leading companies in emerging countries.”

Cumberland’s investment philosophy

For their Global and International Equity Portfolios, Cumberland typically seeks quality global companies with strong financials, solid management, and the ability to survive in any type of economic environment. Current investment themes represented in the portfolios are health management and ageing demographics, rising global wealth, automation, and big data.



Sukyong Yang
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“We have found that global investing adds incremental value to our clients’ returns without contributing additional risk to the portfolio,” says Yang. “By adhering to our investment process and ignoring market and news hype, we’ve managed to preserve our clients’ capital through recessions and market crashes and meet their longer term goal of steadily growing their investments with us.”

Cumberland takes an active approach to portfolio management, avoiding the passive or index investing trend popular with many retail investors and some discretionary managers today. “We see this as contrary to the concept of buying low and selling high because index buyers have no choice but to load up on stocks that may already be overvalued and neglect those that are undervalued,” says Yang. Another disadvantage of indexing is the inability to protect capital when markets go down. “As we saw during the Great Financial Crisis (GFC) of 2008-2009, indexes perform in line with the market.”

U.S. investors trending towards global

“Until recently, many U.S. investors have not seen the need to look outside their own markets,” says Yang. With the current high valuation multiples of American companies, U.S. investors are finding it more expensive to invest domestically, spurring a trend to investigate investment opportunities outside the U.S.

How a global portfolio benefits Canadian investors

With the exception of 2016, Canadian markets have underperformed global markets since 2011. “Investing in

global markets during this time would have benefited the Canadian investor even with our weaker Canadian dollar,” says Yang.

Global recessions such as the one we experienced during the GFC led markets to behave in a similar fashion. However, the recovery, growth, and expansion of the underlying countries have occurred at different rates. “Growth diversity and valuation disparity of the different regions provide a vast variety of investments to choose from with varying return profiles over different time horizons.”

As for currency risk, Yang explains: “Research has shown that foreign exchange risk becomes less significant over the long-term and the benefits of global diversification have a greater impact on the portfolio’s overall performance than the short-term impact of currency movements.”

Working with a private wealth management firm that invests globally

Creating an investment portfolio with adequate exposure to global equities can be challenging for most investors. Through Cumberland, investors work with a team of highly skilled and experienced investment professionals to create a diversified portfolio that meets their specific investment needs for the long-term. With most of the firm’s employees being shareholders, the senior leaders and portfolio managers own what they recommend to their clients. “This ensures alignment with our clients,” says Yang. 

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