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## Looking at stocks? Buy American

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### *Especially sour moods south of the border mean more opportunities for Canadian investors*

Invest in the United States? Are you kidding me?

With its soaring budget deficits, stubbornly high unemployment and housing market that's fallen and can't get up, the United States would seem like the last place investors should park their money. Indeed, venturing south of the border has been a suicide mission over the past decade, during which the S&P 500 has fallen 27 per cent, excluding dividends.

For Canadians faced with a rising loonie, U.S. stock returns have been even worse.

Yet some investors point to the U.S. market's dismal performance, and the pervasive economic worries, as compelling reasons to invest in U.S. stocks now. Why? Because only during times of extreme pessimism do valuations become as attractive as they are now.

"There are lots of really terrific businesses that have been slammed because of the economic malaise in the U.S. today," said Larry Sarbit, Winnipeg-based manager of the IA Clarington Sarbit U.S. Equity Fund. "I'm finding the kinds of companies I want at very reasonable prices. ... We're buying as we speak."

Investors can choose to invest in the U.S. market through actively managed mutual funds or passive exchange-traded funds that track indexes such as the S&P 500, Dow Jones industrial average or Russell 2000.

For investors who prefer to buy individual stocks, discount brokers offer a growing array of tools such as online stock screeners that help narrow the search by market capitalization, dividend yield, earnings growth and dozens of other criteria.

For his part, Mr. Sarbit looks for companies that appear undervalued, have a sustainable competitive advantage and generate lots of free cash flow. The fund's recent purchases have included online postage company Stamps.com STMP-Q, hair salon operator Regis Corp. RGS-N and athletic shoe and apparel retailer Foot Locker Inc. FL-N.

Foot Locker is a prime example of a company whose stock has been beaten down to attractive levels. The stock is trading at about half of its 2005 peak. The dividend yield has risen to about 4.1 per cent, up from about 1 per cent five years ago. And the company has been buying back its own

stock. What's more, the retailer will have about \$3 a share in cash on its balance sheet by the end of the year, he said.

"It's undervalued. They're doing a lot to expand their business. They're expanding their margins, which adds directly to the bottom line. They really dominate athletic shoe and apparel distribution in the U.S.," he said. "And it's a cash machine."

### **Opportunities Abound**

Mr. Sarbit isn't the only investor salivating over the deals south of the border.

"We're finding an above-average number of opportunities in the U.S.," said Pavel Begun, partner with 3G Capital Management in Toronto.

"Basically the general public is very concerned about a potential double-dip, or that growth will be slower going forward than it's been in the past. Normally, any time the mood is sour that gets reflected in a larger number of opportunities in the marketplace."

He's especially keen on Wells Fargo & Co. WFC-N, which is "the best bank in the U.S." and "extremely cheap." He also likes carpet and flooring manufacturer Mohawk Industries Inc.

For self-directed investors with registered accounts, one of the biggest headaches with investing in U.S. stocks is becoming less of an issue. That's because a growing number of discount brokers are doing away with so-called "forced currency conversions."

It used to be that, if you received a U.S. dividend or sold a U.S. stock in your registered retirement savings plan, you had no choice but to convert the proceeds back to Canadian dollars, paying a currency conversion fee in the process.

Now, however, discount brokers including RBC Direct Investing, Questrade and Qtrade Investor allow investors to hold U.S. dollars in most registered accounts, and more brokers are expected to follow.

### **Dividend Stocks**

For dividend investors, the U.S. market is especially attractive right now, according to strategist Vincent Delisle at Scotia Capital in Montreal. With memories of the market meltdown still fresh in their minds, many investors are gravitating to the perceived safety of government bonds, corporate bonds and dividend-paying stocks.

"Consequently, we believe capital allocation decisions [by companies] will be biased toward dividend increases in coming years," he said in a note to clients. "Dividend increases should also get the best reception from investors, with equity sentiment at decade lows."

Despite the misery investors have endured over the past decade, the odds of another market collapse are slim, he said.

"With corporate balance sheets improving and cash piles stacking up, share repurchases, consolidations and dividend increases should reduce the risk of considerable equity downside in coming months," he said.

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