



Does Global Investing Still Make Sense?

By Patti Shannon, CFA

Portfolio Manager

The world is bullish on Canada! As we read investment reports from other countries around the world, we continue to see Canadian companies rated as a buy. This is no doubt due to Canada's performance. Canada has performed well in the decade of the 2000's compared to the S&P 500 and the MSCI EAFE index (the MSCI EAFE index is commonly used as a benchmark for international investing). It is comprised of the stock market index in 21 developed countries in Europe, Australia, and South East Asia.

Return by Decade
Compound annual Return in C\$

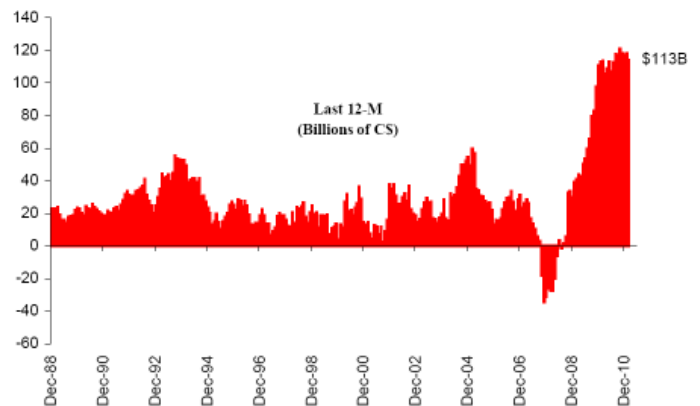
| | S&P/TSX ¹ | S&P500 ¹ | MSCI EAFE ¹ |
|---------|----------------------|---------------------|------------------------|
| 1970-79 | 10.4% | 6.7% | 11.0% |
| 1980-89 | 12.2% | 17.4% | 21.9% |
| 1990-99 | 10.6% | 20.9% | 9.5% |
| 2000-09 | 5.6% | -4.1% | -1.6% |
| 2010-19 | ? | ? | ? |

¹ Total return in C\$



This type of outperformance increases the global focus on Canada and many global investors have been moving funds into Canada for the first time. Flows of global capital into Canadian securities (both bonds and equities) over the last 12 months are significantly above the range of the last 20 years.

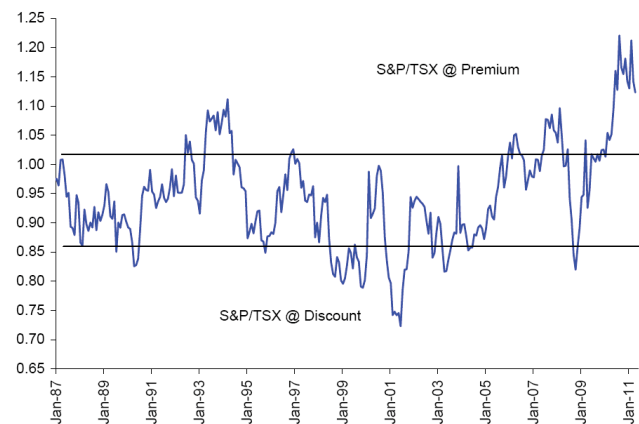
Love affair with Canada continues:
Foreigners buying of Canadian securities



Source: Scotia Capital, Bloomberg

When a stock, a sector, or a country becomes a market darling, it is generally accompanied by prices and valuations that are outside the boundary of the longer term average valuations. The following graph shows the historic 12 month forward price-earnings ratio of the S&P/TSX to the S&P 500. For the last 25 years, generally the S&P/TSX has traded at a discount to the S&P 500. It is currently trading at about a 13 % premium.

S&P/TSX vs. S&P 500 - 12-M Forward Relative P/E



Source: Scotia Capital, Thomson Financial

The smallest 5 of the 10 sectors of the S&P/TSX have dropped from a 25% weighting to an 11% weighting over the last decade. This drop highlights the structural imbalances developing in our Canadian economy with an over reliance on energy and commodities and a reduction in the breadth of the Canadian Business Sector.

McLEAN & PARTNERS' INTERNATIONAL EQUITY POOL

#2
YTD*

#2
1-Year*

Out of
406
Funds

In North America

We continue to advise our clients to stay globally diversified. Through this diversification our clients maintain exposure to great companies in sectors such as Industrials, Information Technology, Consumer Discretionary and Consumer Staples.

McLean & Partners is still positive about the prospects for the Canadian economy and maintains a 26.8% allocation to Canadian Equities in our Global Dividend Growth pool and a 13.7% allocation in the Global Balanced pool. However, it is wise to keep track of the euphoria developing around our country. Clients with a long term prospective are well advised to be aware of what difference the last decade has made to weighting of sectors in the S&P/TSX.

In December 1999, the S&P/TSX sector weighting for Energy, Materials, and Financials were 10%, 9.7%, and 15.8% respectively for a total weighting of these 3 sectors of 35.5%.

Fast forward 10 years and the weightings in December 2010 for Energy, Materials, and Financials are now 26.6%, 24.1%, and 27.9% respectively. This is a total weighting for these 3 sectors of 78.6% which is more than double a decade ago.

*Based on RBC Dexia Performance data USD as of 4/8/2011 of 19.58% 1-year and 10.35% YTD versus the Smartmoney/Lipper universe of 406 International large cap core equity funds in North America.

* YTD for the period 12/31/10 to 4/8/11. 1-Year from 3/31/10 to 3/31/11.

McLean & Partners provides independent research and advice to its clients on a fee for service basis. The company is not engaged in any investment banking, underwriting, consulting or financial services activities on behalf of any companies. McLean & Partners' research reports are for the sole purpose of managing client portfolios on a managed and non-managed basis. The company may engage in proprietary trading to invest surplus corporate cash balances. The opinions expressed herein are those of the author and do not necessarily represent those of McLean & Partners Wealth Management Ltd. The information contained in this report has been obtained from sources believed to be reliable, however, we cannot represent that it is accurate or complete. McLean & Partners Wealth Management Ltd. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.



CIPI **IIROC**
Canadian Investor Protection Fund Investment Industry
MEMBER Regulatory Organization
of Canada