Bulletin – Currency Strategy

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Currency strategies are a very complex beast. They can, however, dramatically affect your portfolio – giving you better than expected returns, or causing a lot of drag on your portfolio. Confusing matters is the raft of advertisements on TV promising that you can make lots of money trading currencies, which is usually a sham; you would have to be investing a ton of money in currencies to make a significant return. Plus there are so many unexpected variables ranging from interest rates to political stability and war that trading currencies is no cakewalk.

For the purpose of this article, we will focus on the CAD/USD rate for the Canadian investor.

The Canadian dollar is heavily tied to oil and commodities. The Bank of Canada tends to try to track the US Federal Reserve's interest rates to stabilize the currency, but has recently decoupled due to the oil price shock, although they are coming back to normalization of this long standing policy.

This means if oil or commodities (like gold, silver, copper, nickel, etc.) start to rise the Canadian dollar rises with it, as while these commodities are priced in US dollars, most Canadian producers will swap them into Canadian currency to cover their expenses.

There are some great investments in high paying US dividend stocks; a lot of advisors have been backing up the truck on them for several years. With the Canadian currency falling due to the oil price shock, it looked like these advisors were getting rockstar returns because your statement would show the stacked currency gains (priced in Canadian dollars) over and above the decent returns on these stocks, plus the dividend was being paid in US dollars.

Entrez vous oil prices rising back up again from a low of around $29 to today's price of around $50 per barrel. Along with that rise came a rise in the Canadian dollar, which means a move of 72c to the US Dollar to a high of 80c nailed the Canadian dollar valuation of a pure US dollar-denominated investment portfolio dropped around 10% *on currency alone*. Depending on the underlying investments, this may have reduced the drop though the dividends and interest, but certainly was a drag on performance.

OPEC nations are facing massive deficits. A cut in oil production to raise prices could seriously affect US or foreign denominated assets.

KLT Group

1342 112 Ave.
Surrey, BC
V3R 2E7
604-357-7064

www.kltgroup.ca

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