Canadian companies on Portfolio123

Portfolio 123 now includes stocks that trade on Canadian exchanges. This is different from the international exposure we previously had in that up till now, we had always dealt with shares that traded in the U.S. (because a foreign firm registered U.S. equity securities or American Depositary Receipts). What's new now is that while continuing to include Canadian firms whose shares traded in the U.S., we will also be offering Canadian firms whose shares trade in Canada.

Generally, once you select our Canadian universe, you will be able to use Portfolio123 as you always have, noting that the tickers will have a ":CN" suffix. Nevertheless, there are some details about which you should be aware.

Currencies

The normal assumption would be that a Canadian firm would have Canadian traded securities priced in in Canadian dollars (with formal filings at Sedar, the Canadian equivalent of the Edgar). That will be the case most of the time. But there are exceptions:

- Some Canadian companies trade exclusively in the U.S. and report in Canadian dollars
- Some Canadian companies are cross-listed in the U.S. and Canada and report in either Canadian or U.S. dollars
- Some Canadian companies reported financials in Canadian dollars in the past and are now reporting in U.S. dollars

Our solution is to match the financials and estimates with the currency of the stock. When the currencies do not match we use the exchange rate at the end of the period for financials and point-in-time for estimates. What this means is that for some stocks a currency effect is in play. Ratios like growth rates for the US traded stock can be different than the Canadian stock for the same company. There is no way around this since we get only one set of financials.

Market Holidays

We recommend you use Canadian benchmarks to evaluate your models. Besides making for a a more reasonable comparison (see below), there is an important consideration regarding market holidays. If you choose a U.S. index, trading in your models will be subject to U.S. market holidays. In other words, if you choose a U.S. benchmark for your Canadian portfolio, your model will not trade on the 4^{th} of July even though the Canadian market is open that day. The only way to have your Canadian models trade on Canadian trading days is to select a Canadian benchmark.

Market Characteristics

The Canadian equity market is much smaller and more focused than the U.S. equity market. In Canada, Energy, Financial and Materials (which includes mining) are prominent.

% Share of Market Cap		
	U.S. (All Fundamentals)	Canada
Consumer Discretionary	12.0	6.4
Consumer Staples	9.1	3.9
Energy	12.3	29.3
Financials	18.3	29.5
Health Care	11.3	3.3
Industrials	9.0	6.7
Information Tech	14.2	2.0
Materials	5.8	12.5
Telecomm Services	5.0	4.0
Utilities	2.8	2.4

Bear this in mind if you create Simulations/Portfolios with Sector/Industry Diversification rules. This is neither good nor bad. It simply means that you should be attentive to this skewing, so any “sector bets” or “industry bets” you make with your models are intentional rather than inadvertent.

Also, tradability thresholds may differ. Generally, the Canadian market skews smaller. Here are some comparisons as of this writing:

	U.S. (All Fundamentals)	Canada
MktCap>10	80%	73%
MktCap>50	66%	47%
AvgDailyTot(60)>5000	75%	44%
AvgDailyTot(60)>25000	68%	47%
AvgDailyTot(60)>50000	65%	45%
AvgDailyTot(60)>100000	61%	35%
Close(0)>1	75%	45%

Keep this in mind as you establish your liquidity rules.

Because of the significant differences between the U.S. and Canadian market, in addition to the issue discussed above regarding trading holidays, we recommend that you refrain from using a U.S. index to benchmark the performance of your models.

Company Characteristics

Unless you control for it with your screening rules, be prepared to see more companies with Sales that are zero or even negative for various periods.

An example of a company with zero sales would be a resources company that simply owns assets. It may not be commercially exploiting its resources and hence may log no sales. But such companies do incur expenses and tend to rely on new capital inflows to remain in operation.

An example of a company with negative sales might be a firm whose primary activities involve investment. Under database convention, Sales consists of investment income, which is typically positive. But large losses (realized or unrealized) could overwhelm positive income and cause the overall Investment Income (and, hence, Sales) figure to be negative.