Geography and Investing

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Only 12% of Couche-Tard's sales came from Canada in 2019.

Over 60% of Apple's sales originated outside of the United States in 2019.

These two examples are not exceptions. Large public enterprises often have large international operations.

So why do large institutional investors base their investment decisions, in part, on the country where a company's head office is located?

The answer: in order to simplify the taking of statistics to generate comparison reports.

Even if an investment portfolio is invested in companies that generate the majority of their income and profits outside of Canada, if the companies are based in Canada, that portfolio will be part of the Canadian asset class in the traditional institutional model.

If an institution gives a global management mandate, the portfolio will not be able to hold too many Canadian stocks, even if the underlying companies generate the majority of their income and profits outside of Canada.

Even if they see the irrational side of this way of doing things, some will say that it does not change much; the purpose of this categorization is to simplify the generation of statistics which make it possible to compare a portfolio with a universe of possible portfolios.

Yet irrational guidelines can force a portfolio to hold less than ideal investments or prevent a portfolio from investing in meaningful, quality opportunities.

I think we have to be careful about how we use categorization when making investment decisions.

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