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Loonie Strength Enough to Buy U.S. Stocks: Take the Unfamiliar Gamble

As human beings, we are wired to feel more comfortable with what is familiar. Residents of Ottawa root for the Senators, and residents of Toronto root for the Leafs. If you are lucky enough to have a job in this economy, your lone investment holding is more than likely company stock. This is because local teams and your employer are familiar to you.

When people are presented with two options, and one choice is more familiar to them than the other, they will prefer the more familiar selection. Even when betting, gamblers will often wager on the more familiar choice even if the odds of winning are less than the other choice.

There are greater than 10,000 potential stock and bond investments in the United States. Do Canadians analyze the expected risk and return for each of these investments? No, and I would not expect them to. But, do they analyze the expected risk and return for *any* of these investments? No, because investors, to their great disadvantage, generally trade in the securities with which they are familiar.

Most experts will counsel that an investment portfolio needs to be properly diversified. If you only own company stock, your portfolio is not properly diversified. If you own 5 different stocks, but they are all gold exploration companies, you are not properly diversified. If you own 10 stocks in 5 different industries, but they are all Canadian companies, one could certainly argue that you are not properly diversified.

The current strength of the loonie is the golden ticket for Canadians to buy United States stocks.

Once again, the loonie is nearing parity with the U.S. dollar, a level it has not seen since September 2007. Back then, it was the first time the loonie had reached parity with the U.S. dollar since the 1970s. As I write this article, the loonie is trading at the 93.5 cent U.S. mark.

To put this in better perspective, one year ago, October 2008, it was trading at the .80 cent U.S. mark. That is a 13.5% positive swing, a swing so drastic that the Bank of Canada is concerned because of the risk it poses to the Canadian economy, which is heavily dependent on exports, which are paid for in U.S. dollars. It is highly probable that the Bank of Canada will intervene and buy a ton of U.S. Treasuries, thus strengthening the U.S. Dollar *against* the loonie.

That means there is definite potential for an investment “double-whammy” here by purchasing stocks south of the border.

However, that doesn't mean Canadians should run out and buy U.S. stocks without doing their own due diligence. Taking positions in undervalued, overlooked investments is the best way to make money in any market. The stock market is no different. Here are some potential plays I culled from my stock screens.

Smith & Wesson (SWHC) \$4.63 USD recently beat analysts' expectations, reporting fiscal first-quarter earnings of \$12.6 million compared with \$2.3 million a year ago, with a 30% increase in revenue. It also predicted greater-than-expected revenue for its second quarter. Many investors thought that consumer firearm demand would slow by summer, but consumer sales remained strong, as did law enforcement and international sales. The company has continued to supply police forces in Mexico and signed contracts with multiple state agencies in Washington State.

Electronic Game Card, Inc. (OTC Bulletin Board: EGMI) \$1.85 USD, announced that it has signed a definitive agreement to partner with China LotSynergy Holdings Ltd. ("CLS") to enter the Chinese lottery market. The companies will conduct initial trials during the next few months in China to ensure optimum offering for the market. China LotSynergy, publicly traded in Hong Kong (8161.HK), is an established leader in lottery technology in the fast growing Chinese Lottery market, with extensive local expertise and established contracts.

Matrix Service Company (MTRX) \$9.49 USD provides construction, and repair and maintenance services primarily to the energy and energy related industries in the United States *and* Canada. Market-beating investors buy oversold stocks for \$0.50 on the dollar. Matrix is oversold with a Relative Strength Index of only 33.17. The Price / Earnings Ratio is low at 8.23, but Matrix still enjoys a Return On Equity of 18%. The stock price for Matrix has fallen over 25% within the past year.

Saba Software, Inc. (SABA) \$4.19 USD is the premier people management software and services provider. Adoption of Saba's OnDemand solutions continues to grow, and users now total over 3.6 million. Addison Avenue Federal Credit Union, the California Public Employees' Retirement System (CalPERS) and the University of Tennessee, Knoxville (UT Knoxville) are among the many organizations who recently turned to Saba for on demand solutions to help drive down costs while increasing productivity and efficiency.

It is important to note that there will be a few percentage point costs over and above the exchange rate associated with buying U.S. Stocks. However, given the low disparity we currently have between the U.S. dollar and the loonie, those costs are relatively minor. Again, when selecting any stock, be sure to do your own due diligence.

Be a contrarian, and take the unfamiliar gamble.

Mark Ripple is a veteran stockbroker who authored the book, "Handicapping the Wall Street Way". He has written articles for American Turf Monthly, Southern Gaming Magazine, and Canada's ZOOMER Magazine. Ripple is a well-known contrarian investor, expert horseplayer, and his book may be purchased at either <http://www.UberHorse.com> or <http://www.Equisultants.com>