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By Bill Donoghue

A Dow Jones Column

U.S. investors concerned about investing in unfamiliar markets overseas can get diversify internationally and never leave the continent. Both Canada and Mexico are booming. You can boost your returns by spreading your portfolio north and south.

Investing across the U.S. border opens the door to new investment opportunities. Oddly, few mutual-fund companies offer products geared exclusively to Mexican or Canadian stocks.

If you'd invested five years ago in the only two U.S. funds dedicated to Canada, iShares MSCI Canada Index or Fidelity Canada, you would have annualized gains of 31.4% and 31.6%, respectively, through Oct. 27.

An investment in the Standard & Poor's 500 Index would have earned less than half as much, or 13.4%.

But Canada was eliminated from the S&P 500 when it did away with non-U.S. based stocks. That left Canadian stocks excluded from many U.S. investors' portfolios.

According to investment researcher Morningstar Inc., iShares MSCI Canada's turnover rate is low at about 20%, with 40% of the exchange-traded fund's assets in its top 10 holdings.

The portfolio had about 27% of assets in natural resources at Sept. 30, with 40% in service industries (including 31% in financial services) and about 20% in industrial materials. About 11% is given to technology and telecommunications, with a smattering in consumer-related areas.

Canadians are taking their strong dollar to U.S. shopping malls in border cities like Bellingham, Wash., and Detroit, where they can get more for their money.

Going South

Mexico is another good example of the investing opportunities you can find when you look far from home - but not too far.

Had you invested five years ago in iShares Mexico Index ETF, which invests solely in Mexican stocks, you would have pocketed returns averaging 39.5% a year through Oct. 27.

iShares MSCI Mexico earned almost three times the S&P 500. And the risk? "Average," notes Morningstar. This ETF has consistently outperformed the average Latin American fund and EAFE, the index of European, Australasia and Far East stocks, for the past three- and five years.

What's Mexico's story? Basically, Mexican businesses are benefiting from a growing middle class.

According to Morningstar, the fund's turnover rate is only 12%. The top 10 holdings comprise 78% of the portfolio.

The fund's sector holdings at Sept. 30 include 43% in information technology (including 38% in telecom), 38% in the service economy (including 18% in financial services and 12% in consumer services), and 22% in manufacturing (including 12% in industrial materials).

Stock investors, take a page from the Canadians: It's time to shop across the border.

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