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"In the business world, the rearview mirror is always clearer than the windshield." - Warren Buffett

With the recent acquisitions of Goldcorp by Newmont Mining and Solium Capital by Morgan Stanley, two more Canadian businesses have disappeared. Goldcorp joins a long list of Canadian miners to be scooped up by foreign acquirers over the past 15 years. Many of Canada's largest base metals companies were acquired in the mid-2000s, and Barrick Gold Corp's recent acquisition of Randgold Resources has been similar to a reverse takeover, with the company since unveiling deep cuts at its Toronto head office.

The hollowing out of Canadian corporations has been a hotly contested debate for the past couple of decades. The great super-cycle leading into the 2008-09 recession briefly put this on hold – the Canadian market being largely biased to commodity companies performed well from 2003 through 2007 (the five-year annualized return of the TSX Composite to Dec 2007 was 18.3% - about 50% higher than the SP500 Index when compared in local dollars).

Of course, the super-cycle was based on the significant growth in the Chinese economy over that period. While still high relative to other countries, that growth rate has slowed considerably.

In the twelve years ending December 31, 2010, the Canadian market outperformed the SP500 Index in ten of those twelve years. But, in the following eight years to December 31, 2018, our market only outperformed the SP500 once – in 2016 when the commodity markets roared, with energy stocks rising 35% and industrial metals up 129%. Even with 2016, the annualized eight-year return for the TSX Composite to December 2018 was 5.3%, less than half that of the SP500 Index (in local dollars).

There's an old expression "people vote with their feet" and that's never been truer than in the Canadian market today. Canadian institutional investors have been disgorging their Canadian equity weight since the foreign limitation rules were changed back in the early 1990's, preferring global diversification of equities and other alternative strategies to the volatility of Canada's commodity exposure. More recently, we are seeing retail investors tiring of sub-optimal Canadian returns and asking us for more exposure to the US or elsewhere.

According to Bloomberg, over the past 2½ years, over $375 billion of Canadian takeovers and mergers were announced over eighteen deals, many of which were connected or related to the oil patch. Combined with the difficulties in getting product to market, this has had a dramatic effect on Alberta, and Calgary in particular.

Over the past ten years, Canadian industry has lost some of its competitiveness relative to other countries, rising from 9th in 2010 to a current rank of 12th. Part of that is the ripple effect of a weaker Canadian loonie from being at par with the US greenback mid-2007 through mid-2013 (with a brief period of weakness through the recession).

A low Canadian dollar against the USD can be a crutch for a lack of competitiveness—a partial buffer against lagging productivity and innovation. Canada's economic performance and the strength of our economy is partially a result of our currency offsetting some of the slippage that we have had in keeping up with the United States, in areas like productivity, innovation and competitiveness.

And as a result of this lack of competitiveness, we've had a significant loss of head offices and industry leaders, which has an important impact on our cities, on our economy, and on the overall prominence of our business community.

Why should this worry us? In a text entitled "The Hollowing Out of Corporate Canada", Harry Arthurs (University Professor Emeritus and President Emeritus, York University) studied of 115 foreign-owned subsidiaries in Canada, compared between 1985 and 1995. From this analysis, Arthurs suggested a loss of autonomy for foreign-owned subsidiaries, core functions being relocated to the foreign head office, and a subsequent declining market of services provided to these subsidiaries from local business. In short, a resulting decline in the overall economy.

Over the next few monthly comments, we're going to explore and discuss our concerns about continued foreign takeovers and rationalization, both from the perspective of an investor and as a Canadian.