

Toronto: The future ‘Wall Street’ of Shariah compliant investing?

The UK actor Peter Ustinov once referred to Toronto as ‘New York run by Swiss’. Both cities share a large diverse population, a North American culture and are the largest cities along with being the financial hubs of their respective countries. Even the name York has common ties since Toronto was named York back in 1793. When it comes to global financial city rankings, New York City still takes the top position while Toronto comes in at 23 according to the latest Global Financial Centres Index (September 2022). But Toronto may be able to close this gap by potentially becoming a top destination for investors looking for Shariah compliant investment private wealth managers. NADEEM MIAN delves further.



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The US still makes up about 40% of the world’s stock market cap and through its exchanges, New York Stock Exchange (NYSE) and NASDAQ, remains the gold standard for international stocks listings. Some of the largest non-US companies such as Taiwan Semiconductors (TSM:NYSE) are traded on US exchanges through American depositary receipts, making US exchanges the ‘supermarket’ for portfolio managers looking to access the world’s biggest stocks.

Global Muslim ultra-high-net-worth individuals have multiple options when choosing a Wall Street firm. Most of these investors do not have any issues in meeting the high required minimums which in some cases can be US\$30 million in investible assets. These firms have all the resources to create Shariah compliant portfolios even if it is not a specialization of theirs. Even the average Muslims living in North America and Europe now have some options through various Shariah compliant exchange-traded funds (ETFs) and robo-advisors within their local countries.

However, the group probably most underserved and in ‘no-man’s land’ is international high-net-worth Muslim investors. These individuals can be categorized as being too big for the robo-advisors and/or the do-it-yourself (DIY) ETF model but too small for the major Wall Street firms. They require more than just investment products, they need the services of a private wealth manager.

Herein is where Toronto could be the sweet spot for this group of investors, offering many of the benefits of a New York-based investment firm minus the strict requirements.

The following are the reasons:

The city

If Toronto were a US city, it would be the third-largest city behind only New York City and Los Angeles with a total population of about six million. By many accounts, it is considered the most multicultural city in the world on a per capita basis with about 49% of the population being foreign-born.

The latest Canadian census (2021) shows that about 10% of the Greater Toronto area is Muslim, a number that has doubled over the past 10 years and is the highest percentage of any major North American city. Canada is well known for promoting its population through a ‘multiculturalism’ mosaic. This not only creates an environment of openness by celebrating different cultures but reduces the disenfranchisement of minority communities like we see today in some European cities.

Strong financial sector

Toronto has a well-developed financial center and Canada’s banking system is a classic example of stability. The Canadian banking system consistently ranks at the top as the safest banking system in the world due to heavy government regulations. There have been only two bank failures in Canada over the past 100 years. For retail investors, broker-dealers are members of the Canadian Investor Protection Fund which covers up to US\$1 million of the market value of the securities in the event the firm were

to go insolvent. There is no shortage of qualified individuals as the city has more than 8,500 CFA members making it the second-largest CFA society in the world and first on a per capita basis. The Islamic investing landscape is showing signs of growth as demand for Halal investing is picking up.

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Other than ShariaPortfolio Global, there are also selective options at some of the bank-owned firms such as RBC Dominion Securities, CIBC Wood Gundy and IG Securities while for the DIY and robo-advisor investor, Manzil and Wealthsimple are two Canada-based companies that offer Halal products ideal for small and new investors.

Access and proximity to the US

Canada and the US are the world’s two largest trading partners so the

average Canadian directly or indirectly has exposure to the US economy by default. Toronto and New York City share the same time zone and are only a one-hour flight apart. This closeness is even more apparent with Toronto's portfolio managers and their respective financial markets. Bay Street, also known as Canada's Wall Street, is full of economists, market strategists and analysts covering the US economy and markets. Canadian broker-dealers have their own US trading desks and offer multiple currency accounts with the US dollar being most popular.

The Canada's stock market

The TMX is Canada's group of stock exchanges led by the Toronto Stock Exchange (TSX) where the largest Canadian companies are traded. Canada makes up less than 3% of the world's stock market cap; however, 43% of the world's public mining companies and 20% of the world's oil and gas companies are listed on the TSX and TSX Venture. This makes Toronto the No 1 issuer of securities in the commodity space. With the prospects of a new 'Commodity Supercycle' in the current environment



and after years of money managers being underweight in this sector, opportunities may lie within the TMX that can add those alphas to portfolios.

In summary, Toronto has a lot of the elements needed to be a city where Islamic investing can flourish — a domestic market that is growing at a rapid pace, an inclusive environment, a solid banking and financial

sector and access to the largest capital market in the world.

Toronto is nowhere near challenging some of the major Islamic finance hubs such as Dubai, Kuala Lumpur or even London anytime soon. However, it can bring itself into the conversation in some years from now but for that the stars need to align. ☺

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