



Billionaire Ray Dalio's Top 3 Canadian Stock Picks

Description

One of the world's most respected hedge fund managers is predicting hard times for Canadians.

Billionaire Ray Dalio, founder of Bridgewater Associates, says the country's economy is at the beginning of a tough rebalancing period. In a February research report, Bridgewater reported that, "for more than a decade major global macro pressures have benefited Canada on an absolute basis and relative to the U.S.," and that those conditions "have now left the Canadian economy unbalanced and at significant risk for the next decade."

Mr. Dalio's musings are worth your attention. His hedge fund has made more money for clients than any firm in the history and his research is required reading in some investment circles.

Yet in spite of these risks, Mr. Dalio is still looking north of the border for new investment opportunities. Based on the latest SEC 13-F filings, Bridgewater Associates has maintained or increased positions in several prominent Canadian firms.

So which stocks is Mr. Dalio bullish on specifically? Let's take a look.

Barrick Gold

Today, players in the gold mining industry resembles the characters of AMC's popular T.V. series *The Walking Dead* — a grizzled cast trying to survive in an apocalyptic wasteland.

Thanks to the plunge in precious metal prices, the industry has collectively written off tens of billions in failed mining projects. Now Bridgewater appears to be trolling through the destruction in search of deals.

One miner that has caught Dalio's attention is **Barrick Gold** ([TSX:ABX](#))(NYSE:ABX). Last quarter, Bridgewater nearly doubled the size of its position in the troubled mining giant. The firm's total stake in Barrick now totals \$15.2 million.

Why is he bullish on Barrick? The company is starting to get its act together. Barrick's new Chief

Executive Jamie Sokalsky has promised to cut costs, optimized the company's portfolio, and pare down debt. The firm is also improving its corporate governance practices with plans review its compensation practices and add new independent directors to the board.

Such actions could unlock a lot of value for investors. Several prominent investors have argued that Barrick trades at a discount to peers due to the company's conglomerate-like structure and management's poor capital allocation track record.

If the company were to spin-off its high-cost mines and return more capital to shareholders, [the stock could be worth as much as U.S. \\$35 per share](#) – versus U.S. \$20 today.

Canadian Natural Resources

It's not easy to find growth in the in the large-cap energy sector. Many of the industry's biggest players – **ExxonMobil**, **Chevron**, and **Royal Dutch Shell** – are spending tens of billions every year just to maintain output.

That's why **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) stands out. The company's has one of the best growth profiles in the space with free cash flow expected to increase fivefold over the next four years. And those projections could be raised even further as kinks in the energy supply chain start to clear.

Management plans to return that cash back to shareholders in the form of share buybacks and dividends. So while the stock's current 2% yield is hardly drool-inducing, investors can expect that payout to grow significantly in the upcoming years. That could provide a big catalyst for the share price.

BCE

BCE ([TSX:BCE](#))([NYSE:BCE](#)) is Canada's dividend champion. Over the past decade, the company has almost doubled the size of its distribution and today the stock yields over 5%. Try earning that kind of return in a bond.

However, more important than a high dividend is the sustainability of this payout. A wide competitive moat and tall barriers to entry prevent any new competitors from entering the industry. And the strength of this competitive moat was proven this summer when **Verizon**, one of the largest and best capitalized telecomm firms in the world, abandoned its bid to enter the Canadian market.

For smart investors, the result of this business drama was a giant neon light flashing 'BUY ME'. If an international giant like Verizon cannot break into the Canadian telecomm industry, who can? This means BCE will be able to earn excess returns for investors for decades to come without the worry of rivals eating into margins.

Foolish bottom line

Ray Dalio is part of a growing numbers of pessimists betting against Canada. But while the macro trends may be stacked against the Great White North, there are still plenty of good investment opportunities for those willing to shift through individual names.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:CNQ (Canadian Natural Resources)
3. TSX:ABX (Barrick Mining)
4. TSX:BCE (BCE Inc.)
5. TSX:CNQ (Canadian Natural Resources Limited)

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