2 Stock Picks to Escape Volatility: Canadian National Railway Company and Canadian Tire Corporation Limited

Description

There is a great deal of concern circulating around the fourth quarter, with many analysts looking for a correction as the U.S. equity indexes remain in record territory while other analysts think the market rally still has some steam left in it. Both the bulls and the bears seem to agree on one thing, however: The fourth quarter will be a volatile one.

So how do you shelter your investments from the expected volatility? There are a few options: momentum investments, defensive investments, and investments into companies that historically perform well in the fourth quarter. Here are my top two picks of companies that could perform well.

1. **The momentum mover: Canadian National Railway Company**

With the uncertainty surrounding what will happen in Q4, a good bet is to pick a stock that performed well in Q3.This is somewhat of a challenge because most TSX stocks either lost value or treaded water in Q3. One exception is **Canadian National Railway Company** (TSX: CNR)(NYSE: CNI). The company's stock climbed from $69.40 to $79.51 in Q3, pushed higher by a few factors but a major catalyst was the company's impressive Q2 earnings, which were released during Q3.

Beyond that catalyst, overall Canadian National Railway is positioning itself very well in its industry with solid growth and dividend increases. The company's stock has consistently advanced in value since it started trading and the company has also regularly hiked its dividend. Another argument for buying Canadian National Railway Company in Q4 is that it is a defensive industrial stock, a solid investment choice during times of uncertainty.

2. The retailer: Canadian Tire Corporation Limited

A more risky play, but with high upside potential is the retailer **Canadian Tire Corporation Limited** (TSX:CTC.A). Q4 is the most important quarter for retailers because it contains the holiday shopping season. There are indications that the consumer is in better shape this year compared to last, with year-over-year growth in incomes, wages, and jobs that could translate into more holiday sales. When it comes to Canadian Tire, the winter can also be very important for the company because it sells a variety of supplies that Canadians need to survive the season, from snow tires to toboggans.

There is one major point of caution when it comes to Canadian Tire, however. In Q4 2013, Canadian Tire posted record setting results after an extreme winter pushed up the company’s sales. The problem with this is that year-over-year comparisons are so important when analyzing company’s earnings that if this winter is mild, then sales will decline compared to Q4 2013, which will in turn cause some negative pressure on the company. On the other hand, investors may realize that last year’s weather was an anomaly, and a robust performance could drive the company’s stock higher.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)

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