



How to Profit From a Tumbling Loonie

Description

Over the past 12 months, the Canadian dollar has declined by 15% versus the U.S. dollar. And there are plenty of reasons why the loonie is likely to depreciate further.

Let's start with the Canadian economy, which contracted for the fourth month in a row in April. There's now a real possibility that Canada is in the midst of a recession, and this could lead to further rate cuts by the Bank of Canada. That would be a big negative for the loonie.

The crisis in Greece is also negative for the loonie. As investors flee the Euro, they are looking for safer currencies, such as the U.S. greenback. This causes the U.S. dollar to strengthen against all currencies, including the loonie.

Even worse for the Canadian dollar, oil prices are once again in decline. Rig counts are up, as are inventory levels. OPEC production has ticked up. Iran could be pumping more barrels if a nuclear deal is reached.

So, that begs the question: what's the best way to bet on a declining Canadian dollar?

1. Magna

Even though American oil production has surged in recent years, the country still imports much of its oil. So, when the U.S. dollar strengthens, these imports become cheaper, which is very beneficial for any industry that relies on oil.

The auto industry is a prime example. As the U.S. dollar strengthens, Americans should see lower prices at the pump, compelling them to drive more. This is great news for automakers, auto dealers, and parts suppliers.

Thus, **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) is in a great spot. Its stock has already quadrupled in the last five years, but still trades at just over 12 times earnings. That's not a bad price for such a well-positioned company.

2. CAE

CAE Inc. ([TSX:CAE](#))([NYSE:CAE](#)), which specializes in aircraft simulators, is also in prime position to benefit from a weak Canadian dollar. The company is based out of Montreal, and incurs much of its expenses in Quebec thanks to some generous tax credits. Yet the company is truly global in nature.

Thus, the Canadian dollar accounts for a much bigger share of costs than revenue at CAE. So, when the loonie weakens, both revenue and margins should tick up. As a bonus, the airline industry is benefiting from low oil prices, and that looks set to continue. This is yet more good news for CAE.

3. Any other American-listed stock

The easiest way to bet on the greenback is to buy American-listed stocks. This doesn't necessarily mean buying companies *based* in the United States; most top Canadian stocks have a U.S. listing as well.

For example, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) has a listing on the New York Stock Exchange, and also has a big banking presence on the U.S. East Coast. So, if you buy the American-listed shares, you really benefit twice if the U.S. dollar appreciates.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CAE (CAE Inc.)
2. NYSE:MGA (Magna International Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:CAE (CAE Inc.)
5. TSX:MG (Magna International Inc.)
6. TSX:TD (The Toronto-Dominion Bank)

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