



3 Reasons Why I'm Wildly Bullish on Canada

Description

To be honest, I'm starting to get a little bit mad about how bearish Canadians are about our own economy.

Truthfully, there is a lot to be bearish about. Just about every commodity is either trading at or is close to lows not seen for years. Our housing market is undeniably expensive. Our currency is in a free fall, which is hitting the average person when they head to the store. And collectively, we're riddled with debt.

Together, these factors have combined to bring Canadian stock markets to their knees. Since the TSX Composite Index peaked at more than 15,500 points back in August 2014, it's been pretty rocky ride for Canadian investors. Even after bouncing off recent lows, the index of Canada's largest stocks is down more than 21%.

Humans tend to put more weight on things that have most recently happened, so I get why investors are nervous. But at the same time, we're acting as though Canada will be permanently impaired by this latest downturn.

Nothing could be further from the truth. Canada will come roaring back—it's only a matter of time. Here's why you should ignore the noise and start loading up on terrific long-term buys.

Commodities are cyclical

A big part of Canada's economy is connected to commodities, either directly or indirectly. And right now everything with commodity exposure looks terrible.

The same thing happens every cycle. Commodity stocks load up on debt when times are good. Then they frantically produce as much as possible to try and pay down the debt. The price of the underlying commodity sinks because of the oversupply, and eventually producers go bankrupt. Only then does the excess supply leave the system.

We're too focused on the downturn part of the cycle. Commodities will come back and bring stock

prices with them. It's only a matter of time.

Foreign investment and exporting

One advantage of the low Canadian dollar is U.S.-based companies are going to start looking at buying Canadian companies on the cheap. Or, if they can't buy, they'll likely expand in Canada.

It's also good news for Canadian companies that are able to export. Some are handling this downturn quite well, since increased volumes from U.S. customers are more than making up for the weakness they're seeing at home.

This slowdown could also finally be the impetus needed for Canada to finally reinvest in its manufacturing sector.

Cheap stocks

Many of Canada's finest companies are trading at bargain-basement prices.

Take **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)), one of my largest holdings. Shares are trading hands at less than 50% of net asset value because investors are concerned with its exposure to western Canada. But even if we value the Calgary part of its portfolio at zero, it still trades at less than 60% of the net asset value.

Let's value Dream another way. Management projects the company will earn \$2.25 per share in adjusted funds from operations in 2016. If we say Calgary won't contribute at all, the rest of the portfolio should earn \$1.82 per share.

So if Calgary is worth nothing, the stock still trades at less than 60% of net asset value and 8.4 times earnings. We know Calgary is worth something. It's 20% of the portfolio with a 90% occupancy rate.

Another example is **WestJet Airlines Ltd.** (TSX:WJA). Investors are worried about how the company will deal with the downturn, especially considering how its hub is out of Calgary.

But WestJet is consistently profitable, has the advantage of lower costs than **Air Canada**, is protected by a duopoly in domestic air fares, and is rapidly expanding both regionally in Canada and internationally in the United States.

WestJet trades at just six times trailing earnings, pays a consistently rising dividend, and has the balance sheet strength to weather this storm. Yes, it's a cyclical airline, but it's also a terrifically managed one that's incredibly cheap.

Dream and WestJet are just two examples. There are dozens more if you're willing to look.

The time to be bullish is when everyone else is bearish. Canada is bruised, but we're not dead—not by a long shot.

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1. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)

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