Think the Loonie Is About to Plunge? Then Buy These 3 Stocks

Description

It hasn't been a good few months for the Canadian dollar, at least against the U.S. dollar.

After reaching a temporary high of close to US$0.80 back in early May, the loonie has been a terrible performer, falling more than 5%. Our currency currently trades at US$0.7586.

According to traders, the next few months could be even worse for the loonie. Oil is struggling, currently trading at just over $41 per barrel. Other commodities are faring little better. And the U.S. dollar continues to be strong as nervous investors flee to the market perceived as being the world's safest.

One analyst even predicted we could soon see the Canadian dollar retesting lows of US$0.69 last set in January.

If such a thing happens, investors will want to be prepared. Here are three stocks that are poised to do well if the dollar plunges.

Fairfax Financial

Fairfax Financial Holdings Ltd. (TSX:FFH) is one of Canada's top financial companies with insurance operations around the world. It's run by Prem Watsa, who has done a masterful job of investing Fairfax's spare capital in undervalued stocks. Watsa is also famous for predicting the 2008-09 U.S. housing meltdown, making billions for Fairfax by betting against dodgy mortgages.

Fairfax benefits from a weaker Canadian dollar in a few different ways. It reports in U.S. dollars, which means any decrease in the Canadian dollar will likely boost shares. Assets valued in U.S. dollars will suddenly be more valuable, and so will earnings from many of its foreign operations.

In January, when the Canadian dollar tanked (along with the rest of the market), Fairfax shares did the opposite, increasing nicely. Look for shares to do the same thing if the dollar falls again.

TD Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the Canadian bank with the most U.S. exposure. The company's U.S. division has more than eight million customers, nearly US$300 billion in deposits, and almost 26,000 employees who work at more than 1,200 branches. U.S. exposure is primarily in the northeast part of the country.

Although TD's Canadian earnings still dominate its bottom line–64% of 2015 earnings came from its Canadian retail operations–its U.S. operations are still very important. Earnings from this division were 23% of net income.

If the Canadian dollar weakens against the greenback, it would be good news for TD. Earnings from its U.S. division will go up without it having to do anything, at least when converted back to Canadian dollars.

Saputo

Saputo Inc. (TSX:SAP) has been busy consolidating the dairy market around the world, making acquisitions here in Canada, Argentina, Australia, and, most importantly, the United States. In its most recent fiscal year $5.7 billion of its $10.9 billion total revenue came from the U.S.

The company generated $725.5 million in adjusted EBITDA from the United States, out of a total of $1.17 billion. That works out to 62% of earnings that could be affected in a positive way. That's nice potential.

And remember, Saputo has plenty of potential to keep making acquisitions in the U.S., which is a good thing for shares if you envision the Canadian dollar hitting the skids for a long time.

If you think the Canadian dollar will continue to weaken, take steps today to protect your portfolio. Other sectors that might benefit are domestic travel, manufacturing, and certain retailers.

CATEGORY

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:FFH (Fairfax Financial Holdings Limited)
3. TSX:SAP (Saputo Inc.)
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