



Bullish on the Loonie for 2017? Buy These 3 Stocks

Description

As [I outlined a few days ago](#), there are a number of reasons to be bearish on the Canadian dollar.

Canada's economy is struggling, at least when compared to the United States. Higher interest rates south of the border will likely attract capital as well. President-elect Donald Trump may pass laws that are unfriendly to Canadian exporters or companies doing business in the United States. And our housing bubble could end very badly.

But it isn't all doom and gloom for Canada. There are plenty of reasons to be bullish. Most analysts predict the commodity rally to continue. Both Calgary and Vancouver's housing markets are struggling, and investors haven't freaked about it. Perhaps we could see the soft landing everyone is hoping for.

If 2017 is a good year for the loonie, you'll want to position your portfolio accordingly now, before everyone else rushes into the trade. Here are three ways to do so.

Retailers

Retailers that import a large portion of their products from China have really been hurt in the past few years.

The Chinese yuan is pegged to the U.S. dollar. The U.S. is China's largest trading partner, so such a move makes sense. U.S. retailers don't have to worry about exchange rates impacting their purchasing decisions from China.

Canadian retailers who import from China are stuck paying more as the U.S. dollar appreciates, taking the yuan with it. Some of the successful operators have been able to pass costs along to customers, but many haven't.

Reitmans (Canada) Limited (TSX:RET.A) is one stock that desperately needs the Canadian dollar to head higher to give it better purchasing power in China. It has struggled in a competitive world, taking the opportunity to shut down underperforming stores and become a leaner operation.

Reitmans is well positioned to weather a tough Canadian retail environment. It has more than \$150 million in cash with zero long-term debt. It delivers plenty of free cash flow. Sales have been trending upwards lately, buoyed by good online results. Now all it needs is to pay a little less for merchandise.

Airlines

Airlines benefit from a stronger loonie in a couple of ways.

Fuel is an airline's largest expense. It is priced in U.S. dollars, while most revenues are collected in Canadian dollars. The Canadian dollar strengthening while oil remains weak is an ideal situation for Canada's largest airlines.

Fuel isn't the only input cost in U.S. dollars. A company like **Transat AT Inc.** (TSX:TRZ) that flies to many Caribbean destinations has other costs denominated in U.S. dollars — things like foreign-based staff, airport fees, and booking hotels as part of travel packages. Remember, many Caribbean nations also peg their currencies to the U.S. dollar.

Like Reitmans, Transat is well positioned to wait for the currency to cooperate again. It has \$360 million in cash — versus a market cap of \$210 million — and no significant long-term debt. It also has a book value of \$12.60 per share versus the current price of \$5.52.

And if the Canadian dollar recovers, then more Canadians will travel abroad.

Tech

There are a couple of reasons why most of Canada's tech giants benefit from a stronger U.S. dollar.

These companies are investing aggressively in new technology, which usually comes from the United States. Thus, much of these investments are in U.S. dollars.

Some of these tech stocks make up for it by selling the majority of their products to a U.S. audience or pricing in U.S. dollars. But some can't.

A weak Canadian dollar also makes it more difficult to attract good talent. Why would a Canadian programmer stay at home for \$100,000 a year in local currency when an equivalent job in the United States comes with much more purchasing power?

BlackBerry Ltd. ([TSX:BB](#))(NASDAQ:BBRY) is the obvious winner if the loonie strengthens. The Waterloo-based company already struggles to find good staff since many would rather work for sexier organizations.

The bottom line

If the loonie strengthens, it would be good news for Canada's retailers, tech companies, and airlines. It'd also be welcome relief for consumers and snowbirds. If you believe such a move is imminent, it's time to position your portfolio.

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