



Investors: Is Now The Time to “Short” Canada?

Description

It hasn't been a terribly good week for the TSX Composite Index. Canada's benchmark stock index has fallen more than 1% from the beginning of the week through Thursday's close.

Normally, a 1% move in just under a week is the very epitome of much ado about nothing. Stocks are constantly moving up and down for dubious reasons. Normally it takes a 3% or 5% move in a week before people start getting excited.

There might be a little more here than just random market movements, however. Here's why it could be time to get concerned.

Canadian issues

The market has shrugged off quite a few pieces of bad news this week.

First came the decision by the United States to slap tariffs on Canadian softwood lumber imports, ranging from 3% to 24%. This isn't the first time the United States and Canada have squabbled about lumber. The U.S. has claimed Canadian lumber is unfairly subsidized by the government since 1982.

Despite the World Trade Organization claiming such tariffs are unfair and the two nations signing an agreement in 2006, President Trump's administration still went ahead and implemented the tariffs.

Trump's administration also briefly considered pulling out of NAFTA altogether before retreating somewhat. It looks as though Canada, Mexico, and the United States will end up renegotiating some of the terms of the agreement.

Speaking of Trump, his administration also floated an ambitious round of tax reforms this week. Included in the proposal is a recommendation to lower U.S. corporate tax rates from the current level of 35% to 15%. Trump's tax reforms will also make it easier for companies to repatriate cash held overseas.

Such a move could have interesting ramifications for Canada. We've seen a number of multi-national

companies — including **Restaurant Brands International** — headquarter themselves in Canada because of tax implications. The opposite could happen if the United States cuts its corporate tax rate significantly.

And finally, there's the constant threat of Canada's housing bubble. Bears say the current situation surrounding **Home Capital Group** is the first step of a very painful decline. Remember, the first cracks in the United States's housing collapse appeared in the subprime mortgage part of the market as well. If the lack of confidence in Home Capital spreads to other alternative lenders, who knows what could happen next.

In short, there's a lot to be bearish about.

How can you short Canada?

Investors looking to short Canada can easily do so by buying stocks that benefit from a weakening Canadian dollar.

An easy choice is **Saputo Inc.** ([TSX:SAP](#)), which is Canada's largest maker of milk, cheese, and other dairy products. Despite dominating the Canadian market, approximately 65% of Saputo's sales are outside our nation with the United States leading the way. The company also has a strong presence in Australia and Argentina.

Yes, some of Saputo's dairy products are among the US\$112 million that get exported from Canada to the United States. But Saputo did nearly \$11 billion in revenue in its last fiscal year. It's a non-issue.

If anything, the company would see a net benefit from no dairy products crossing borders. The United States exported an estimated US\$631 million worth of dairy to Canada in 2016.

Another interesting choice for Canadians looking to bet against Canada is **Slate Retail REIT** (TSX:SRT.UN). The company is the owner of grocery store-anchored property in medium-sized cities in the United States.

Slate trades on the Toronto Stock Exchange with units that are priced in Canadian dollars. As the loonie declines versus the greenback — and it will if investors get bearish on Canada — Slate shares will be worth more in Canadian currency. Slate's dividend is US\$0.06750 per share each month; it's then converted to Canadian dollars and paid out to shareholders. The stock currently yields 7.3%.

The bottom line

It's easy to be bearish on Canada over the short to medium term. There are a lot of potential storm clouds on the horizon.

Perhaps it's time to look at diversifying away from Canada. It could prove to be extremely profitable.

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1. Editor's Choice

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1. TSX:SAP (Saputo Inc.)
2. TSX:SGR.UN (Slate Retail REIT)

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