



2 Interesting Ways to Play Bank of Canada Interest Rate Increases

Description

Interest rate increases affect a variety of industries in different ways, and long-term investors looking for attractive entry points for interest-sensitive names should consider the following two investment strategies when searching for how to play the most recent interest rate increases by the Bank of Canada.

Option #1

As Warren Buffett famously said, "...be fearful when others are greedy, and greedy when others are fearful." This statement is very relevant today, as Canadian investors have sold off the utilities sector as a whole, providing long-term conservative investors with an attractive entry point at current levels.

An option always available to investors is to average down and continue buying firms they believe will outperform in the long run on short-term weakness. Companies such as **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) and **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) have sold off slightly from their peaks and are likely to continue climbing should the Canadian dollar drop or the Bank of Canada fail to raise rates, or both.

Option #2

For investors holding an interest-sensitive name such as Algonquin Power or Fortis, the recent hikes by the Bank of Canada have been an unwelcome surprise.

The interest rate risk with respect to a company such as Algonquin Power is exacerbated by the fact that this company's dividend is denominated in U.S. dollars, making a rising Canadian dollar due to the recent rate hikes by the Bank of Canada doubly lousy for shareholders.

Canadian investors who are worried about the potential for additional interest rate hikes from the Bank of Canada and believe the Canadian dollar may continue to appreciate can purchase shares of Algonquin Power on the New York Exchange, effectively hedging out some of the risk associated with a rising Canadian dollar trend which is expected to continue. Looking at the three-month charts of AQN on the Canadian and American exchanges shows quite a different story due primarily to exchange rate

differences.

Shares traded on the U.S. exchange have outperformed their Canadian counterparts of late due, in part, to a weakening U.S. dollar relative to a basket of global currencies. Whether or not this trend continues, by holding shares on both sides of the border, an investor can effectively hedge out a significant percentage of the currency-related risk which is closely tied to interest rates.

Bottom line

Buying more shares on the Canadian exchange and doubling down, or buying additional shares on the New York exchange are strategies that each have their own potential pitfalls. As always, consult an investment advisor before making any large investment decisions or incorporating any new strategies into a given portfolio.

Stay Foolish, my friends.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:FTS (Fortis Inc.)

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