

3 Stocks to Avoid Now That the Canadian Dollar Has Risen 10%

Description

Since the beginning of May, the Canadian dollar has risen more than 10% against the U.S. dollar.

While international travel companies and importers may benefit from a stronger loonie, for other industries, it presents a whole host of problems.

Here are four stocks you may want to avoid so long as the loonie remains elevated:

Fortis Inc. ([TSX:FTS](#))([NYSE:FTS](#))

Fortis is an electric and gas utility company that has been making an aggressive push into U.S. markets over the past couple of years.

Today, over 50% of Fortis's operations are based south of the border.

While normally this would be a good thing as the United States electricity markets are more dynamic and profitable than those in Canada, a stronger loonie means when Fortis repatriates those U.S. earnings back to Canadian headquarters, they simply aren't worth as much in Canadian dollars.

Especially in light of Fortis's over-extended balance sheet which shows close to \$21 billion in debt compared to just \$14 billion in shareholders' equity, this is a name that conservative investors may want to steer clear of for a little while.

Linamar Corporation ([TSX:LNR](#))

Linamar is an automotive manufacturing company that makes engineered products designed to power vehicles including powertrains and drivelines.

While Linamar has enjoyed tremendous success over the past 10 years, averaging 19% in earnings growth over that period, the trend may be expected to slow now that the Canadian dollar has strengthened.

Linamar's largest export market is the European Union, and a stronger loonie may be expected to hamper exports to the region, particularly "big-ticket" items like cars and trucks.

This trend is already starting to be reflected in the company's recent financial performance with earnings growth of just 2.5% in the second quarter, well below recent averages.

Badger Daylighting Ltd. ([TSX:BAD](#))

Badger Daylighting is a provider of hydrovac excavation services.

Hydro excavation is the process of removing soil with pressurized water. An air conveyance or vacuum

is then used to transfer the soil or debris to a debris tank.

The service has gained popularity in the oil and gas markets.

While the oil and gas end-market may be on the rebound, Badger should be expected to face stiff competition in the U.S. market, where it does 75% of its business.

In the U.S., Badger competes against local firms, and a stronger Canadian dollar will hurt the company, making its services more expensive than U.S. counterparts.

Add to this the fact that Badger shares pay only a 1.42% dividend yield, and investors may be wise to hold off on this name until circumstances improve.

Conclusion

Much of the spike in the Canadian dollar has to do with the Bank of Canada's recent announcement to raise interest rates.

Higher interest rates typically draw capital into the country, causing the currency to appreciate.

Higher rates could very well mark a turning point for the Canadian economy — not to mention the stock market. Investors may be well advised to think *Foolishly* about rebalancing their portfolios and getting out of the way of stocks that may not fare so well in a rising interest rate environment.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:BDGI (Badger Infrastructure Solutions Ltd.)
3. TSX:FTS (Fortis Inc.)
4. TSX:LNR (Linamar Corporation)

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