

# Contrarian Investors: Could Auto Tariffs Create Long-Term Value for Car Stocks?

## Description

Let's face it, if the U.S. imposes auto tariffs on Canada, it could be game over in terms of the economy – at least for a while. Coupled with another interest rate hike, real estate challenges, and existing tariffs, additional auto tax raises could tip Canada into recession. While that may sound alarmist, it's taken umpteen hours of article reading for this optimistic-to-a-fault commentator to come to that decidedly gloomy conclusion.

But could Canadian investors possibly *benefit* from U.S. tariffs on our auto industry? If you think it's just not doable, read on for a few ideas about how you could cash in on potential doom and gloom in the markets. You'll also find a few last-minute do's and don'ts to bear in mind should the first signs of a downturn present themselves.

### Hit with auto tariffs, Canada would do all it can to boost business

The implementation of auto tariffs would likely be followed by a "scrappage system" that would encourage Canadians to buy new, domestic vehicles. It also means that the government would do everything possible to keep factories open, lower domestic taxes on new vehicles, and generally stop the industry from atrophying.

If you want a bold contrarian pick in the face of auto tariffs, **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) is looking strong. With the ink still drying on a major deal to work with China to service their burgeoning [electric vehicles market](#), this stock is a solid buy with good value. The EV boom may well have wheels (if you'll pardon the pun), and should EVs take off worldwide, Magna International will have the expertise and reputation to help.

While **Linamar Corp.** and **AutoCanada Inc.** have had a bumpy ride of late in terms of their share prices, contrarians may want to view this whole auto tariff debacle as a value opportunity and snap up both, since they have decent fundamentals, pay small dividends (0.87% and 2.48% respectively), and have some annual growth in earnings forecast. Just do your homework and decide for yourself how healthy they are before you commit.

### What happens if worst comes to worst?

Until you see signs that a crash is on its way, carry on investing the way you would normally. After all, it's that panic mode that precipitates the worst market failures. So don't panic, and try to stay bullish until the very last minute. However, it is definitely worth going through your portfolio and culling anything that's holding too much debt or that may not be able to honour its dividends.

If you are still buying, however, perhaps take heed of the fact that disrupted international trade is leaning heavily on the markets at the moment. Hold cash by all means, but stay invested in defensive areas. Any precious metals are likely to survive, as are the biggest financial entities and some [core consumer defensives](#).

While these are wise choices at the best of times, and certainly in the event of a recession, all of the above crash-defiant sectors are especially solid counter-investments to consider if you are thinking of buying battered auto stocks.

### **The bottom line**

If you do decide to buy auto stocks ahead of tariffs, then there are a few things to consider, such as levels of debt and working multiples, so make sure you do your due diligence.

Thinking of buying *after* auto tariffs are applied? You're brave, but investing in Canadian autos while they're under attack is bold, patriotic, and might even be a good idea if you pick wisely. A bunch of value is already being erased from some solid stocks that will eventually pick up again. If you *do* decide to go for it, either before or after application (should it come), then be bold, go long, and stay invested.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
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