3 Top Canadian Stocks To Buy When the TSX Index Gets Hit

Description

The broader market is finally pulling back enough to give investors a chance to buy some of Canada's top companies at reasonable prices.

Hitting the buy button when everyone else is running away takes courage, and there is always a chance things will get worse before they get better, but history suggests that picking up top-quality market leaders when they are out of favour tends to pay off over time.

Let's take a look at three stocks that deserve to be on your radar.

Canadian National Railway (TSX:CNR)(NYSE:CNE)

CN is one of those stocks you can simply buy and hold for decades. The company's revenue stream comes from a wide variety of business segments in both Canada and the United States. When one sector has a rough quarter, the others tend to pick up the slack.

CN's vast rail network transports everything from crude oil, cars, and coal, to lumber, grain, and consumer goods. The tracks connect to three coasts, providing clients with access to essential ports as well as key distribution hubs across Canada and down through the heart of the United States.

The company generates adequate free cash flow to invest in essential track and equipment upgrades and still pay investors. The dividend yield is only 1.7%, but CN has raised the payout by roughly 16% per year over the past two decades.

The stock is down from the 2018 high of $118 to $107 per share. That's still above the 12-month low, but any additional weakness should be viewed as a an opportunity to add CN to your portfolio.

TransCanada (TSX:TRP)(NYSE:TRP)

TransCanada operates natural gas and oil pipelines in Canada and the United States. The company beefed up its U.S. presence a couple of years ago with the purchase of Columbia Pipelines, which added key facilities in the Marcellus and Utica plays, in addition to strategic pipeline assets running from New York to the Gulf Coast.

In Canada, TransCanada just announced it will go ahead with the $6 billion Coastal GasLink line to bring natural gas from Northern B.C. to the new $40 billion Kitimat LNG project. This, along with $22 billion in additional near-term developments, should support solid revenue and cash flow growth in the coming years.

The stock is down to $51 per share from $61 this time last year. Investors who buy now can pick up a 5.4% yield.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD is another market leader that gives investors great access to U.S. growth. The American business accounts for more than 30% of TD's profits.

Rising interest rates in Canada might put pressure on the housing market in the next couple of years, but TD's mortgage portfolio is more than capable of riding out a rough patch. Higher rates in the U.S. should benefit net interest margins, and lower corporate taxes are giving the division a nice lift.

TD is one of Canada's best dividend growth stocks, and investors should see the trend continue. Additional downside in the shares could be on the way, given the strong run we saw off the April 2018 low, but a move below $70 would start to make TD attractive. At the current price of $73, TD offers a 3.7% dividend yield.

The bottom line

It takes some guts to be greedy when others are fearful, but buying industry leaders with strong businesses when they are out of favour is as proven strategy for buy-and-hold investors.

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aswalker