3 Smart Ways for Canadian Investors to Combat Lower Oil

Description

Oil prices are inching back positively after a Q1 that saw benchmarks up on positive international manufacturing data as well as the continuation of various geopolitical bottlenecks. However, discussions among some TSX index investors towards the end of March were dominated by talk of lower oil, with some of the biggest energy stocks in the crosshairs, so let's see what to do next time the needle is in the red.

Stay invested: Don't follow the herd

Your oil-weighted energy stocks may lose value when oil prices are low, but at some point, prices will always rise again — as they are doing now. Adopting the same herd mentality that drives mass sell-offs won't benefit a long-term investor in energy stocks.

Look at **Suncor Energy** (TSX:SU)(NSE:SU) for instance. The TSX index giant is down 4.16% in the last five days, apparently not yet touched by news that oil prices are climbing. This goes to show that a beta of 1.5 relative to the market can be especially precarious when the market itself is so easily affected by oil prices.

If you want to sell, wait for higher oil

Oil is a limited resource, and the potential for bottlenecks exist everywhere along the supply chain. The takeaway is that at some point, oil prices will rocket again — and when they do, that would be the time to sell if you still want to reduce your exposure.

Going back to Suncor, there are various reasons to stay invested, not least of which would be a dividend yield of 3.88%. Suncor's 20.4% expected annual growth in earnings over the next one to three years is significantly high for the market, and it would be a shame to miss out on any upside potential for the sake of temporarily low consumer confidence, no matter how widespread.

Counter-invest in transport

Anything that does well out of lower oil is a smart investment when oil prices are low. Transport is an obvious choice, though any industry that relies on large amounts of stock being shipped from one place to another or requires large amounts of energy is also going to have a good time during lower oil. Look at any high-growth industry that relies on large amounts of power.

A good idea for investment here might be Canadian cannabis. Intense farming is an energy sponge at the best of times, with such industries generally utilizing large quantities of both electricity and water. Indeed, there's some conjecture that cannabis growing is an even bigger resource sink than wine production.

Alternatively, go for a transport stock such as **Air Canada** (TSX:AC)(TSX:AC.B), whose 12-month returns of 20% beat the Canadian airline industry average of 6.8% for the same period. Though it may have a high P/E ratio of 52.2%, its 50.3% expected jump in earnings may help growth investors overlook this kind of valuation.

The bottom line

Oil investors should counter-invest and stay invested when oil prices are low. A strong choice would be **TFI International** (TSX:TFII), a trucking and logistics stock with a one-year return of 19.2% and earnings-growth rate of 84.8% for the same period. It's fairly valued with a P/E of 11.9 times earnings and P/B of 2.2 times book and pays a modest dividend yield of 2.43%.

CATEGORY

1. Cannabis Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:AC (Air Canada)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:TFII (TFI International)

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2019/04/01
Author
vhetherington