



2 Stocks to Profit From a Stronger Canadian Dollar

Description

Don't look now, but the Canadian dollar has been on the uptrend of late thanks in part to relatively strong job numbers, subtly higher inflation on this side of the border, and a very dovish Fed chairman Jay Powell. At this juncture, it certainly seems as though the Fed may be closer to hitting the rate-cut button than our own Bank of Canada given the potential for further inflationary pressures on this side of the border and the recent strength in oil prices.

Just a few weeks ago, investors were hitting the panic button over the possibility of a 60-something-cent U.S. dollar, with some pundits crying wolf, inspiring investors to speculate on currency moves. While a US\$0.62 Canadian dollar, as Fidelity Investments's [David Wolf suggested](#), was a cause for concern, I urged investors to stick with quality companies that they'd buy regardless of which direction they think the loonie's headed and not to make too many rash moves with their portfolio to position for the outcome of such a binary event.

"Nobody knows where the loonie is headed next with great certainty — not even the most seasoned of forex traders." I said in a prior piece. "Currency speculation has its pitfalls, but if you score a high-quality dividend-paying stock that you'd own regardless, you can hedge yourself from a weakening loonie while continuing to cut the checks that [such firms] will send your way."

Now that the loonie is picking up a bit of momentum after hovering around in limbo for most the year, many investors are likely feeling more optimistic on the potential for a US\$0.80 loonie. Here are two quality names that'll benefit from a stronger loonie.

Dollarama

Up first, we have **Dollarama** ([TSX:DOL](#)), the Canadian discount retailer that suffered a massive fall from grace last year, plunging around 44% from peak to trough — [a massive fall that I called well before the fact](#) back on January 8, 2018.

This year, Dollarama's fortune has turned around and with shares surging back towards 52-week highs. While neither I nor fellow Fool Karen Thomas are sold on Dollarama stock at 27 times trailing

earnings, the name will still be a beneficiary as the loonie strengthens.

As a discount retailer with a price cap, it's tough to cope when the loonie goes into free fall. Should the loonie continue rallying, Dollarama will have a bit of weight lifted off its shoulders as a good portion of the firm's goods are manufactured outside the confines of Canada. A stronger loonie means more goods per dollar spent, and that bodes well for the company as it enters a more competitive Canadian discount market.

If you're keen on the discount retailer for its positive correlation to the value of the loonie, I'd at least wait for a pullback to \$40 before backing up the truck.

Air Canada

Up next, we've got high flyer **Air Canada** ([TSX:AC](#))(TSX:AC.B), a name that I've been pounding the table on for nearly three years. The stock keeps roaring higher, and given the positive changes to its business and the fact that airlines are more economical than they were before the Great Recession, I still think Air Canada has a tonne of room to run, even after surging 53% year to date.

Should the loonie move higher, Canadians will be more likely to spend money on international travels. When the loonie below US\$0.75, it was tough for us Canadians to justify international trips because we knew we'd take a hit at the currency exchange.

While a one- or two-cent gain may not have a considerable impact on the number of flight tickets sold, I think a sustained rally in the loonie could be more fuel for Air Canada's hot stock. Speaking of fuel, a stronger loonie means Air Canada has more purchasing power when it comes to fuelling up their aircraft, effectively offsetting any potential rises to fuel costs.

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