Revealed: 3 Top Stocks to Buy in July (and 1 to Avoid at All Costs)

Description

Although summer is fully upon us and most people would rather be checking out the scenery around the lake rather than their portfolios, that doesn't mean you can just abandon your capital. The summer is the perfect time to load up on some of Canada's best stocks.

Here are three that look interesting heading into July and one I would stay very far away from.

Bombardier

I have to admit, I'm starting to like the new **Bombardier** (TSX:BBD.B). The company has spent the last year selling off most of its commercial jet manufacturing assets, choosing instead to focus on making train cars and offering maintenance contracts for municipal rail systems. The transportation division is a steady business that should generate predictable profits. Maybe investors will start to pay attention to it now that the aircraft division isn't such a distraction.

The way I would play a Bombardier recovery is by purchasing the preferred shares. This strategy would give an investor a very generous dividend while waiting for the company to recover. An improved Bombardier would be seen as a better credit risk, which would send the price of its preferred shares higher. Those two things would combine for a nice total return.

Bombardier has several preferred shares outstanding. The simplest security is the Series 4 preferred share, which trades under the ticker symbol BBD.PR.C. This stock pays a straight $0.391 dividend each quarter, which translates into a 7.9% yield. It's a perpetual preferred, which means the dividend stays the same as long as it's publicly traded.

Aimia

I remember the days when **Aimia** (TSX:AIM) was all about its main asset, Aeroplan. Now that loyalty program has been sold and the company is attempting to acquire different loyalty programs and turn itself into a growth stock.

The interesting wrinkle is Aimia's largest shareholder, Mittleman Brothers. Some investors speculate the hedge fund — which controlled nearly 20% of all shares outstanding before a big recent share buyback — will attempt to take the undervalued company private. Others think Mittleman will buy enough shares to gain control and use Aimia's cash and investments as a source of permanent capital.

Mittleman pledged to do nothing with its shares until July 1, which means we'll likely see some action in July.

Vermilion Energy

The reasoning behind buying **Vermilion Energy** (TSX:VET)(NYSE:VET) shares in July is pretty simple. I'm betting on a short-term bounce in energy prices, which will push shares of Vermilion higher.

Vermilion is the kind of company I can get comfortable owning over the long term, too. It has oil production in Canada, the United States, and even Europe and Australia. The company focuses on light crude, which gets the best price when it's sold to refineries. It also focuses on obtaining low-cost production. These two factors ensure the company can deliver enough cash flow to pay its generous dividend even when the price of crude is struggling.

Vermilion's $0.23 monthly dividend translates into a 9.7% yield. If crude oil averages $60 per barrel in 2019, the company should generate approximately $500 million in free cash flow. That puts the payout ratio in the 85-90% range.

One to avoid

If I was interested in shorting stocks, I'd probably take a long look at betting against **Rocky Mountain Dealerships** (TSX:RME), Canada's largest chain of agricultural equipment retailers.

The stock keeps stubbornly going down, seemingly hitting fresh 52-week lows on a daily basis. Shares have lost about 35% of their value over the last year, and recent disappointing quarterly results haven't helped either. This all happened despite the company buying back its own shares and raising the dividend.

Unfortunately, the agricultural equipment business isn't easy. It has tough competition and margins aren't great even in the best of times. Combines and tractors are more reliable than ever, and some speculate farmland has gotten so expensive that farmers can't afford to splurge on new equipment.

Rocky Mountain might bounce back and become a solid long-term investment, but I would avoid the stock in the short term — at least until shares can form a bottom.

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