



Expect a Trump Victory? Sell These 2 TSX Stocks!

Description

Anybody with a nodding relationship with social media will know that the U.S. election race is becoming increasingly volatile. Investors this side of the border have a few options. They can sit this one out, provided their stock portfolios are optimized for a frothy market. Or they can pick a side. Green power stocks are a solid play for a Democrat win. However, investors [expecting a Republican victory](#) have other options.

Watch this one asset type

Coal, grain, metals, auto parts – all are key segments of Canada-U.S. rail freight manifests. Unfortunately, they are also the types of commodities subjected to past tariffs by an irked President Donald Trump. That means that rail stocks are likely to be seen as at-risk from a trade-focused U.S. headed by a victorious Trump. Whether merited in the long-term or not, a selloff in this asset type could be forthcoming.

In terms of momentum, **CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)) was up 2% across five days at the start of the week. **CP Rail** ([TSX:CP](#))([NYSE:CP](#)) was up 5%. It's also clear from the past year that CP Rail has picked up more momentum than its competitor, giving CP Rail more to lose from a selloff. With CN Rail up 28% and CP Rail up 48% in 12 months, the latter stock is barreling along at a potentially dangerous click.

Selling at \$420 a share, CP Rail is also overpriced in relation to its median target of \$409. And it's also far more expensive than its low target of \$280. While an optimistic reading could see CP Rail capable of hitting \$480, the extreme uncertainty in the markets makes downside the more likely eventuality. That's a lot of downside potential.

Now look at the multiples. For this, let's focus on the price-to-book as an indicator of inherent value for money. CP Rail has a P/B of 7.5 times book. CN Rail is considerably better value for money at 5.5 times book. Therefore, if investors want to keep some exposure to railways, CN Rail looks like the safer bet.

Weighing risk from a November stock selloff

When to sell? Look at the timing: Investors have a key date coming up. October 20 sees both CN Rail and CP Rail [releasing their earnings reports](#). These are expected to be fairly mixed. However, car efficiency, reduced capex, and record quantities of grain shipments could see investors pushing up their share prices in the days leading up to October 20.

Shareholders may want to make use of these rising valuations to trim on strength. This should be an especially compelling thesis for investors bullish on a Trump win. With the U.S. election just a scant couple of weeks later, **TSX** rail shareholders could have a window of opportunity to cash in.

Of course, nothing is ever set in stone when it comes to equities. But the twin theses of rising pre-earnings rail shares followed a Republican win selloff are credible. In theory, they could therefore be combined to the benefit of a long-term wealth creation strategy by releasing liquidity at an optimal time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

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