



## The 3 Best Canadian Stocks to Buy in October 2021

### Description

It has been a bumpy ride for Canadian stocks in October. Well, to be truthful, that statement really mostly applies to tech and [growth stocks](#). While these stocks soared through the summer, their momentum has been replaced by Canadian energy stocks rampaging skyward. It is funny to think that energy stocks were essentially left for dead in 2020.

My point here is that it is extremely important Canadian investors have a diversified [portfolio](#). Throughout 2021, the market has rotated from value, financial, and industrials stocks to growth stocks and back to cyclical/energy stocks.

By having diverse sector exposure, investors not only hedge their bets, but they also get to participate broadly as each sector rotates upward. Keeping the theme of diversification in mind, here are three top Canadian stocks I would own for a broadly balanced portfolio.

### A top Canadian industrial stock

The short-term stock chart for **Canadian Pacific Railway** ([TSX:CP](#))([NYSE:CP](#)) may not be that appealing. Its stock is down 2.6% year to date. However, over the past five years, it has delivered a steady compounded annual return of nearly 16% (not including dividends). Over the past five years, it has essentially doubled earnings per share.

While it is the smallest class-one railroad in North America, it has consistently been one of the best performers. It has one of the lowest operating ratios in the industry.

If it can successfully acquire **Kansas City Southern**, it will still be one of the smallest railroads. However, it will have a strong advantage as the only rail line spanning Canada, the United States, and Mexico. Today, it trades with a price-to-earnings ratio around 20. This is among the cheapest railroads you can find today, so to me, this Canadian stock looks attractive.

## A global financial leader

Speaking about a portfolio staple, **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) is a great fit for any Canadian's portfolio. Given its diverse operations in real estate, renewables, infrastructure, private equity, debt, and insurance, it provides a natural diversification hedge. With interest rates so low, alternative assets are in great demand by large pension funds and institutions.

While this company is a lot bigger than it was five years ago, its growth profile could actually accelerate. It now has the size, balance sheet, scale, and expertise to deploy capital in ways it never could previously.

Over the next five years, [management](#) believes it could deliver +25% annualized returns. Considering this stock still trades at a material discount to its intrinsic value, there is opportunity for valuation improvement. Combine that with strong distributable earnings growth, and this Canadian stock could be a winner across the decade.

## A top Canadian energy stock

For a cyclical energy play, **Canadian Natural Resources** (TSX:CNQ)([NYSE:CNQ](#)) is one of the highest-quality stocks you can own. Certainly, it has had a strong 61% run-up in 2021. Yet there is a reason for this. Firstly, CNQ has world-class energy production assets. These are long-life (+30 years of reserves), low-decline assets that can produce oil at a very low cost (around US\$30 per barrel).

At US\$39 per barrel, it can cover both its dividend and sustaining capital. Any price above that (WTI is trading US\$78) is free cash flow, which it can deploy for shareholders' benefit. In fact, currently, this Canadian stock is repurchasing around 11 million shares per quarter. That equals to around 1% of its common shares.

While this Canadian stock has a debt-to-cash flow ratio of around 1.3 times, it is allocating 50% of excess free cash flow to quickly reduce debt. Today, CNQ pays an attractive 3.8% dividend. Since inception, it has grown its dividend by a 20% CAGR. Given its strong financial and operational position, dividend growth is another way shareholders get to win for the next few years ahead.

### CATEGORY

1. Investing
2. Stocks for Beginners

### POST TAG

1. Editor's Choice

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2. NYSE:CNQ (Canadian Natural Resources)
3. NYSE:CP (Canadian Pacific Railway)

4. TSX:BN (Brookfield)
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