



Suncor (TSX:SU): 1 Canadian Commodity Stock to Diversify Your TFSA

Description

Canadian commodity stocks have really heated up over the past year, with everything from oil, gas, and even agricultural fertilizers taking off.

Undoubtedly, Russia's invasion of Ukraine is a major reason why the commodity rally has been given a jolt. It's hard to believe that oil would ever boom again above the US\$100 mark just under two years after it went negative. Indeed, that's the value of acting as a true contrarian, even when most others on the Street would deem you a fool (that's a lower-case *f*, folks!) for doing so. Indeed, commodity price moves are pretty much impossible to predict.

There are just too many exogenous variables to pinpoint the range of where oil will go over the near, medium, or even long term!

Simply put, trading the price of any commodity can be a risky proposition, especially for younger investors with limited experience. Personally, I'm no fan of trying to make a quick buck off commodities. By doing so, you'll be playing the game of greater fools (that's based on the Greater Fool theory). If you can't find a buyer, it's easy to lose a considerable amount over the near term.

Commodities to help your TFSA do better amid market volatility and surging inflation

That said, there is value in incorporating commodities in your TFSA or RRSP portfolio. Yes, it's hard to tell where a commodity's next move will be. But it can act as a hedge and provide your portfolio with greater diversification.

Now, commodities and their producers on their own can be quite volatile. But their moves tend to be less correlated to the broader equity markets. It's this lower correlation that can help investors thrive when markets sag. On the flip side, they can trend lower as equities surge, or even sag hand in hand with stocks. Undoubtedly, they tend to move under their own power!

In 2021 and 2022, we've witnessed commodities powering higher, even as the growth trade came to a plunging halt. With such a risk-off appetite and the ongoing crisis in Ukraine, I'd argue that hedging your portfolio with a well-run commodity producer is only prudent if you're looking to improve your portfolio's overall risk/reward scenario. Today, commodities like oil are at a high point. But many of their producers have yet to catch up to the underlying move in the commodity price.

If you seek a cheap [diversifier](#) in the commodities space, consider **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)).

Suncor Energy

Suncor is a fossil fuel play that was quick to implode in 2020. The company cut its dividend because management had no idea what the fate of oil would be, given the demand destruction at the hands of COVID. Indeed, Suncor's managers prepared for the worst but were dealt the best. As the company looks to benefit from unforeseen industry tailwinds, I think the stock could be dealt a considerable earnings boost, even as the stock continues its rise.

Nobody knows if energy prices will remain elevated in 2023. Regardless, Suncor stock seems like a great bet, even if a 10-20% plunge in oil were to strike. There's some margin of safety to be had in the well-run integrated player, and for that reason, the stock seems like a great buy on the way up.

Today, SU stock is still below where it was pre-pandemic, despite oil being much higher. The longer the Ukraine-Russia crisis goes on, the more likely oil prices will continue to stay elevated and the more boost a company like Suncor could get, as it looks to reward investors with big dividend hikes over the years.

The bottom line

Suncor went from dud to [stud](#) in just over a year. After surging nearly 60% over the past year, the name is one I'd look to buy, as it gradually benefits from the higher oil price environment.

At 14.9 times earnings, the 4.1% yielder is starting to look attractive to those looking to diversify their portfolios further while receiving a nice payout for their patience.

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