CN Stock is a Wise Buy as Market Waters Get Choppy

Description

When the market waters get choppy, investors need to take a step back to cool their heads and get back to basics. Indeed, it's hard to see your TFSA or RRSP portfolio lose more than 3-5% in any given week. With a bear market in the U.S. and a vicious correction in the **TSX Index**, it's tempting to bail out of the markets. You could always get back in at a later date after the markets calm, right?

With a recession (partially) baked into many stocks, I do think investors need to consider the damage their portfolios have already sustained. If the coming recession is short-lived or doesn't happen, many names in this market could be in for a considerable correction to the upside.

Undoubtedly, those who bail on the markets will not enjoy such a rally. Historically speaking, the biggest single-day rallies tend to be in close proximity to the worst single-day plunges. Remember, high market volatility means big down and up swings. It's the downside swings you're most likely to hear about these days.

Smart investors don't time the market

Eventually, markets regain their footing. And you'll want to stay invested, rather than picking your spots. Nobody knows how the stock market will end the year. It'll surely be a turbulent ride, as earnings results come flowing in. I do think we've reached a point where the bar has been lowered to the extent that any modest beat is capable of triggering a significant rally. That's how beaten up many stocks are these days.

If the first quarter, earnings results were about punishing the broader basket of names posting decent results. The second quarter could be about rewarding those names on better-than-feared results. Simply put, the bar has been lowered, making it easier for companies to jump over them, even if growth numbers continue to be weighed down by broader macro factors.

CN stock: An efficient railway to sail through an economic

storm

Let's take a look at one simple value play in **CN Rail** (TSX:CNR)(NYSE:CNI), a dividend-growth stock with a new management team that's hungry to make the railway giant efficient again. At writing, CN Rail has a spectacular operational track record, with a 23.2% ROE (return on equity) and 11.2% ROIC (return on invested capital). Both metrics are above the rail industry average of 19.6% and 9.5%, respectively.

In short, CN Rail is still a well-managed rail company. However, it has room to improve. Its ROE and ROIC numbers were much higher prior to the pandemic (34.8% and 21.9% were the high watermarks in 2018). CN Rail is still an incredibly efficient railway, but with a reputation for being one of the most efficient on the continent, there's a lot to live up to.

Looking ahead, CN Rail has downgraded its operating ratio (OR) guidance — lower means a higher margin — to below 60% from around 57%. Given the magnitude of headwinds and uncertainties, an OR in the 60% range seems like a more realistic target. As recession and inflation headwinds pass, I'd look for CN Rail to continue lowering the bar on its OR target again (remember, lower is better).

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