3 Contrarian Ways to Play Trade Disruptions

Description

A number of events have recently impacted supply chains globally. These events, such as the coronavirus outbreak and domestic rail blockages, may make investors hesitant to jump at any company directly involved in global supply chains right now. I believe some opportunities exist in this space for contrarian investors brave enough to go against the grain and "be greedy when others are fearful." I'm going to point out three companies I'd recommend considering for those who have this mindset and believe we may be nearing a bottom.

Descartes Systems

Descartes Systems (TSX:DSG) is a Canada-based supply chain company. Therefore, Descartes is a true pure play on this sector. The company handles a variety of logistics and supply chain details for corporations. This includes arranging paperwork and shipping documentation as an end-to-end middleman.

Trade between North American firms has become more complicated in recent years due to various tariffs, trade wars, embargos, etc. This has led corporations involved in import/export to rely on companies like Descartes. Companies look to Descartes to get everything done correctly the first time to avoid shipping delays.

Descartes has had a nice run over the past five years, with a more than 200% return at the time of writing. However, Descartes has slipped, of late, due to the aforementioned headwinds. For contrarian investors betting that a return to previous global trade levels is imminent, investing in a long-term company like Descartes could turn out well.

Chemtrade Logistics

Chemtrade Logistics (TSX:CHE.UN) has been hit particularly hard since the beginning of the year. This company specializes in the movement of various chemicals. Therefore, Chemtrade has been directly impacted by the recent rail issues in Canada. Chemtrade's share price has been driven

markedly lower in the near term.

Chemtrade had operational issues prior to these exogenous rail blockades. The rail-related stoppages only added fuel to the fire for companies like Chemtrade. The portfolio of chemicals shipped by Chemtrade has had mixed results of late. When one chemical saw upticks in volume, often this was offset by volume declines among other chemicals in the company's portfolio. This hindered any sort of growth investors may have been expecting.

With a dividend yield that has been hovering around 14% at the time of writing, the market appears to be pricing in some serious skepticism with respect to the ability of Chemtrade to continue to make its dividend payouts in the medium term. This is certainly a higher-risk, higher-reward play for investors, so act accordingly.

Canadian National Railway

Obviously a direct play on Canada's rail networks, **Canadian National Railway** is perhaps one of the best ways to make a bet on which direction one believes the Canadian economy is headed in the years to come. The correlation with CNR's stock price and Canadian GDP growth means CNR is a de facto recession bet for investors. If we see a bad recession in the near term, expect to see poor stock price performance for CNR and other North American railroads. Of course, the contrary viewpoint holds as well.

For investors with a long enough investment time horizon, buying a company like CNR on the way down could prove to be very profitable in the decades to come, as North American growth eventually rebounds.

Stay Foolish, my friends.

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1. Investing

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1. contrarian
2. defensive
3. Editor's Choice
4. supply chain
5. warren buffett

TICKERS GLOBAL

1. TSX:CHE.UN (Chemtrade Logistics Income Fund)
2. TSX:DSG (The Descartes Systems Group Inc)

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