



How To Beat The Fed – 3 Stocks With Inflation Busting Returns

Description

The United States will celebrate an important anniversary next month — this December will mark 100 years since the founding of the Federal Reserve. Remarkably since that date, the U.S. dollar has lost over 97% of its purchasing power, according to the consumer price index.

Our central bank here in Canada is a little younger, but the principle is the same. Since the Bank of Canada was created in 1937, the value of the Loonie has been eroded by a comparable amount. Both illustrate that disastrous consequence of storing your wealth in dollars. And as long as the current system is in place, we can expect that trend to continue.

The best way to protect your capital from this phenomena is to own shares in remarkable businesses — companies that can increase their cash flow and dividends faster than the rate of inflation. Luckily in Canada, there are many wonderful businesses that do just that. Here are my three favorites.

The natural monopoly

Beating inflation comes down to finding companies with pricing power. And perhaps there's no better example of this than **Canadian National Railway** (TSX: CNR, NYSE: CNI).

In some businesses, it just doesn't make sense to have more than one supplier. Certain industries naturally gravitate toward a monopoly. And investors in these types of companies can enjoy big returns for a long period of time without having to worry about competition.

Railroads have this quality. Once a company is established in a region, there's little incentive to build a competing line along the same route. The industry certainly battle against other means of transportation, such as trucking for example. But rail's inherent cost advantage prevents rivals from gaining too much market share.

Pricing power has meant inflation busting returns for shareholders. Since 1996, CN has raised its dividend at a 18% compounded annual clip. And with the company making gains in new industries, such as crude-by-rail, you can expect those dividend hikes to continue.

King-sized returns Imperial Oil

([TSX: IMO](#)) is sitting on 3.6 billion barrels of oil equivalent in proved reserves. No matter how much money the Bank of Canada prints, those barrels aren't going anywhere. The real value of those assets won't really be impacted by monetary policy.

But what separates Imperial from its competitors is its management's ability to allocate capital and their track record of putting shareholders first. As demonstrated by the company's industry leading return on capital employed, management only invests in new ventures that meet a very high bar for profitability. Excess capital is returned to shareholders through dividends and buybacks.

Isn't that just common sense? Yes, but common sense isn't all that common in the energy industry.

For shareholders, Imperial's dividend has slightly edged out inflation growing 5% annually over the past 13 years. During the same time management has also repurchased nearly half of the company's outstanding shares.

Cashin' royalty cheques

In sports we cheer for the underdog. In stories we root for the challenger. But business is no parable. In reality size beats grit nearly every time. Economies of scale allow a company to undercut competitors, crush rivals, and earn a higher return for shareholders.

When it comes to accidentally continuing the monarchy theme, it doesn't get any bigger than **Royal Bank** (TSX: RY, NYSE: RY). Weighing in at a \$100 billion market cap, sheer size gives this company the lowest cost of capital in the industry. Heavy government regulations also makes it nearly impossible to start a competitor. That gives Royal Bank plenty of pricing power.

This edge is clearly evident in the firm's performance. Over the past 13 year, Royal Bank has increased its dividend payout at a 14% annual clip.

Foolish bottom line

As investors, the biggest threat to our wealth is inflation. That's why it's important to invest your capital in wonderful businesses with sustainable competitive advantages and plenty of pricing power. The above certainly isn't an exhaustive list of every Canadian business with these traits. But it should get you thinking in the right direction.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:RY (Royal Bank of Canada)

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