3 Stocks to Buy and Hold Forever

Description

Warren Buffett didn't make his billions by trading in and out of high-flying tech stocks.

Rather, he was always on the lookout for wonderful businesses with sustainable competitive advantages. He bet big on his best few ideas and rode them to riches, rarely ever selling.

However, it's not easy to identify businesses that can withstand the test of time. For every legacy asset that lasts generations there are countless failures. Fortunately, the Oracle of Omaha has provided plenty of guidance in order to identify these wonderful companies. So with that theme in mind, here are three stocks that deserve a permanent place in your portfolio.

Imperial Oil

If you read through Buffett's letters to shareholders, you're likely to be struck by how often he raves about the people who work for him. When we invest in a company, we are entrusting our capital to the management team. It stands to reason that the performance of the business will only be as good as the people running it.

This is what makes **Imperial Oil** (TSX:IMO) so great. The company is run by the most shareholder-friendly management team in the business. And this isn't just my opinion. I can back it up with cold, hard numbers.

In the oil industry, we have a handy metric to determine how well a company is managing our money: return on capital employed, or ROCE. The ratio measures how much cash is going into the business versus how much is coming out.

In the case of Imperial, the company has generated an average annual 25% return on capital employed over the last five years — more than twice as much as its closest competitor.

Company	**ROCE 5-Year Average (%)**
Imperial Oil	25%
Husky Energy	12%

Cenovus Energy	11%
Canadian Natural Resources	10%
Suncor Energy	8%

Source: Company filings

Imperial has discipline. Executives only allocate capital to the highest returning projects. And if management cannot find enough ventures that meet a very high bar for profitability, they will return excess capital to shareholders through dividends and buybacks.

Over the long run, this philosophy will generate the highest returns for shareholders.

Canadian National Railway

Buffett looks for wonderful businesses protected by a wide economic moat.

Simply put, a great business is just plain difficult to compete with. And nowhere is this better demonstrated than **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

To illustrate just how wide CN's economic moat is, consider this thought experiment. Imagine if I were to give you $1 billion. How big of a dent could you put into the company's business? Actually, not much.

CN's history dates back to the late 1800s. At that time there was still a lot of available land on which to build new railroads. Today, well, there simply isn't. If you wanted to build a new line today, you would have to buyout every landowner along the proposed path. Not to mention that any new rail project would be subject to a long government approval process.

So, even if you had $1 billion… $5 billion… even $50 billion to spend, chances are you still couldn't compete with this company.

This reality has created a nearly impenetrable barrier to entry. And this can allow CN to crank out cash flow and dividends for decades to come.

Tim Hortons

Invest in wonderful businesses. That has been the foundation of Buffett's investment philosophy, which has paid off handsomely for him over the years.

So allow me to alter a Buffett quote on the tobacco industry in order to give you an idea about why **Tim Hortons** (TSX:THI)(NYSE:THI) is a great company worth owning: "I'll tell you why I like the [coffee] business. It cost a penny to make. Sell it for a dollar. It's addictive. And there's a fantastic brand loyalty."

It doesn't get any simpler than this: coffee + beans = profit.

When other companies are trying to invent the next great gadget or peddle Euro/Aussie capfloor swaptions, Tim Hortons' business is both easy to understand and highly profitable. And given that the company's brand is now synonymous with all things Canadiana, Tim Hortons is likely to continue that tradition for decades to come.

Everyday thousands of Canadians line up to get their 'fix'. And every year Tim Hortons sells 2.1 billion cups of coffee every year at a triple digit mark-up. Although that looks like a staggering number, this could just be the beginning for Canada's beloved coffee icon.

Over the next five years, the company plans to open 500 new locations in Canada and 300 in the U.S. Tim Hortons has also had success in the Persian Gulf region and is looking to expand its footprint there.

This should bode well for shareholders. The company is on track to deliver 11% to 13% compounded annual earnings growth over the next half decade. And that should translate into plenty of dividend hikes and share buybacks for investors.

Foolish bottom line

Few businesses can stand the test of time. However, the companies listed above have both the sustainable competitive advantage and wonderful management teams needed to pull off exactly that. That's why they deserve a permanent place in your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:IMO (Imperial Oil Limited)

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