1 Stock to Buy and Hold Forever

Description

Here's another secret the financial industry doesn't want you to know…

While speculative junior miners and high-flying tech startups tend to garner most of the headlines, these are rarely the types of businesses that make investors the most money.

Rather, the most successful companies are the ones that we see every day. They are companies that are so ingrained within our day-to-day lives that if they disappeared tomorrow it would have a noticeable impact.

Unlike some financial companies, "forever stocks" don't deal in "squared collateralized debt obligations" and other financial mumbo jumbo. And unlike widely held technology companies like as **BlackBerry**, forever stocks don't have to come up with the next gee whiz gadget every year.

Forever stocks simply produce valuable products that your grandchildren will probably use. And their operations are protected by wide competitive moats that allow them to crank out profits for shareholders year after year.

Take **Canadian National Railroad** (TSX: CNI)(NYSE: CNI), a leader in freight rail transportation for almost a century. The company's status as a forever stock comes from a few key points:

First of all, like any forever stock, CN owns an irreplaceable asset. The company controls over 20,000 route miles of track spanning Canada and mid-America, connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico.

When most of the railroads were built over a century ago, there was plenty of free land to build on. Today, that's no longer the case. New projects would be subject to a lengthy (and expensive) regulatory approval process. And new tracks would require the buyout of every landowner along the proposed route.

This creates an almost impenetrable barrier to entry. Even if you had $1 billion… $10 billion… $100 billion to spend, chances are you still couldn't compete against CN. That's why there have been almost no large railroads built in decades.

Second, the economics of the rail industry give it a sustainable cost advantage over other methods of transportation. Today's trains can move a ton of freight more than 400 miles on a gallon of diesel — that's almost four times more fuel-efficient per ton-mile than trucking.

And though railroads are a notoriously capital intensive industry, a dollar spent on railroad infrastructure has historically offered better returns than alternative transportation methods such as airlines. And CN has done a great job controlling spending keeping capital expenditures to around 15% to 20% of revenues — well below its peers.

It's this collection of traits that has allowed CN to trounce the market over decades. Over the past five years the **S&P/TSX Composite Index** (Index: ^OSPTX) has posted a respectable 60% return. By comparison, CN has delivered a 160% gain for investors over the same timeframe — and that figure doesn't even include dividends. Not too shabby for a dull railroad.

Of course, the real test of a forever stock is how it fares during challenging times. It's periods of depression or war that truly test the strength of a company's mantle. However, CN managed to raise its dividend during the Great Recession of 2008. In fact, through multiple economic crises since 1996, the company's has increased its dividend by 1,480%.

Foolish bottom line

Great investors build their portfolios around a collection of businesses that can withstand the test of time. While nothing is ever guaranteed, CN has proven that it can deliver impressive returns for shareholders year after year. That's why it deserves 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)

Category

1. Investing

Date
2025/07/06
Date Created
2014/04/03
Author
rbaillieul