



Look Who Just Sold \$500 Million in Canadian Pacific Stock: Should You Sell, Too?

Description

According to INK Research, the largest shareholder of **Canadian Pacific** ([TSX: CP](#))([NYSE: CP](#)), Bill Ackman of Pershing Square Capital, recently sold 3.2 million shares for \$533 million.

It's rarely a good sign to see a company insider sell stock, let alone the largest and one of the most influential. Prior to this sale, Bill Ackman controlled nearly 10% of Canadian Pacific stock. Let's take a closer look to see what this means for investors in one of North America's largest railroads.

Some background first

In October 2011, Pershing Square Capital announced that it had purchased a 12.2% stake in Canadian Pacific. Its ownership stake grew to 14.2% just two months later. Shortly thereafter, Canadian Pacific's then-CEO Fred Green and five board members were forced out to pave the way for the hiring of well-respected Hunter Harrison, **Canadian National's** ([TSX: CNR](#))([NYSE: CNI](#)) past president and CEO.

Since being officially appointed Canadian Pacific's Chief Executive Officer in June 2012, Hunter Harrison and his management team have delivered for investors – the stock has increased 135%.

It's what hedge funds do

To be fair, hedge funds are not expected to be long-term investors. They identify opportunities, exploit them for a sizable return, and then exit. And this is not the first sale of Canadian Pacific stock for Pershing Square Capital.

In October of last year, Bill Ackman sold nearly 6 million shares for \$835 million, leaving it with roughly 17 million of the initial 24 million shares acquired. Including this most recent sale, Bill Ackman still owns approximately 13.9 million shares, or 58% of his initial stake.

Priced for perfection

Canadian Pacific stock is not cheap. In fact, it is downright expensive.

With a price-to-earnings ratio of 33, Canadian Pacific is the most expensive Tier 1 railroad by a wide margin. For comparison, competitors **Union Pacific** ([NYSE: UNP](#)) and Canadian National have P/E ratios of 19 and 20 respectively.

What's a Foolish investor to do?

Just last week, the board of Canadian Pacific announced Mr. Harrison agreed to a contract extension for an additional year. With this extension, Hunter Harrison will be with the railroad until 2017.

The fact that that the architect of Canadian Pacific's turnaround is staying put for three more years is good news. But it's hard to ignore that the railroad's biggest investor just sold another huge chunk of stock. With its rich valuation, and insider selling, Canadian Pacific is one stock investors may want to avoid regardless of the fact Hunter Harrison will be steering the railroad for the next three years.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. NYSE:UNP (Union Pacific)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:CP (Canadian Pacific Railway)

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