The Forever Portfolio: 5 Dividend Stocks to Buy and Hold

Description

"I very frequently get the question: 'What's going to change in the next 10 years?' And that is a very interesting question; it's a very common one. I almost never get the question: 'What's not going to change in the next 10 years?'"
*— Jeff Bezos, CEO of **Amazon.com**.*

In Bezos's mind, the second question is actually the more important of the two. That's because you can build a business strategy around the things that are stable over time. In the retail business, customers will probably still want low prices, fast delivery, and a vast selection 10 years from now. So that's what Bezos builds his business around.

The same principle applies to investing. As a dividend investor, you need to build a stream of income that will last years or even decades. That why it's critical to ask yourself before buying a stock, "Can I easily imagine my great-grandchildren using this company's product?"

So with this theme in mind, I have created the "Forever Portfolio". There're no high-flying technology stocks here. These are wonderful businesses that have sustainable competitive advantages, trustworthy management teams, and long track records of rewarding shareholders.

These companies are so important that if they disappeared tomorrow it would have a noticeable impact on our daily lives. While there are no guarantees in investing, in all probability these companies will be paying out dividends to shareholders for decades and even centuries to come.

1. Canadian National Railway

Canadian National Railway's (TSX: CNR)(NYSE: CNI) status as a forever stock comes down to one key point: The company's main asset is almost impossible to replicate.

Its vast network of track is irreplaceable. The cost to build an exact competitor — securing government approvals, purchasing right-of-ways, and buying out landowners — would cost tens of billions of dollars. This is a nearly impenetrable barrier to entry that allows it to earn excess returns to shareholders year after year.

Of course, the true test of a wonderful business is how well it fares during times of uncertainty. That said, Canadian National managed to increase its dividend during the economic crisis in both 2008 and 2009. Since the company's initial public offering in 1996, it has increased its dividend 14-fold.

2. Fortis

Fortis (TSX: FTS) can trace its roots back to the St. John's Electric Company in 1885, only a few years after Thomas Edison introduced the electric light bulb. Today, Fortis is the largest investor-owned utility in Canada.

In total, more than 90% of the company's revenues are regulated, practically guaranteeing a respectable return on investment. This has allowed the company to increase its dividend 42 years in a row — the longest streak of any publicly traded company in Canada.

3. The Toronto Dominion Bank

Warren Buffett is often asked what the most important trait in a wonder business is. Time and again his answer is the same: a sustainable competitive advantage.

Canadian banks like **Toronto Dominion Bank** (TSX: TD)(NYSE: TD) are protected by a nearly impenetrable economic moat. Six companies dominate the industry, accounting for almost 90% of the nation's banking deposits.

This gives them an advantage of scale that makes it almost impossible for new entrants to compete in the industry. It's thanks to this advantage that the bank has been able to pay a dividend to shareholders every year since 1857 — a decade before Canadian Confederation.

4. Imperial Oil

Since 1954, the Canadian dollar has lost over 80% of its purchasing power. If your time horizon is forever, you need to identify businesses that can pay a growing dividend faster than inflation. There's no better place to do that than hard assets.

Imperial Oil (TSX: IMO)(NYSEMKT: IMO) is a great example of this. Underneath the company's land, Imperial is sitting on 3.6 billion barrels in recoverable oil and gas reserves. No matter how many dollars the Bank of Canada prints, the *real* value of these assets will remain the same.

5. BCE

BCE (TSX: BCE)(NYSE: BCE) is the only non-bank in Canada with a 100-plus year history of paying dividends to shareholders, and that streak is likely to continue.

Telecommunications is an extremely capital-intensive business. It would cost billions of dollars to recreate BCE's network. Because many customers are locked into contracts or too busy to switch to cheaper competitors, building a new business is almost impossible.

Even with the government's best efforts to increase competition in the industry, no real fourth player has emerged. Heck, even **Verizon** passed on the Canadian market last summer. If the world's largest, best-capitalized telecom company can't make the numbers work, no one can.

The investing secret the financial industry doesn't want you to know

In the financial media, "sexy" stocks tend to dominate the headlines. The truth, though, is that it's not the technology start-ups or the junior mining companies that make the most money for investors over the long haul. Rather, it's wonderful, boring businesses the crank out consistent profits that outperform year after year.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:BCE (BCE Inc.)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:FTS (Fortis Inc.)
5. TSX:IMO (Imperial Oil Limited)
6. TSX:TD (The Toronto-Dominion Bank)

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