3 Dividend Stocks You Can Own Forever

Description

Warren Buffett's **Berkshire Hathaway Inc.** recently hit a remarkable milestone. On Thursday, Class A shares of the insurance giant surpassed $200,000 for the first time in the company's history.

Berkshire has come a long way since Buffett's investment partnership started buying shares between $7 and $8 apiece in 1962. Since then, the Oracle of Omaha has delivered a remarkable 21.50% compounded annual return.

How did Buffett pull this off? His secret to success is surprisingly simple: Buy wonderful businesses at a reasonable price and hold them forever. Indeed, his investments in dominant businesses like **The Coca Cola Company**, **International Business Machines Corp.**, and **Wells Fargo & Co** bear this out.

Of course, few of us could ever hope to replicate Buffett's success. However, it certainly couldn't hurt to try to emulate his investment style. With this theme in mind, here are three wonderful stocks you can buy and hold for the long haul.

1. Imperial Oil Limited (TSX: IMO)(NYSEMKT: IMO)

If you study Buffett's shareholder letters, you'll notice how often he brags about the people working for him. When you invest in a stock, you're entrusting your capital to the management team. It stands to reason that the performance of the business can only be as good as the people running it.

Imperial Oil Limited has the most disciplined management in the oil patch. Unlike other companies, Imperial's executives will only invest in a new project if it meets a very high threshold of profitability. Otherwise, they will return excess capital to shareholders in the form of dividends and buybacks.

This has resulted in a shockingly profitable business. Over the past five years, Imperial Oil has generated a 25% average return on capital employed — three times higher than the average return of its peer group.

2. Canadian Utilities Limited (TSX: CU)

There's no better example of a natural monopoly than Canadian Utilities Limited. Because utility services cost tens of billions to build, it doesn't make economic sense to have more than one competitor. That gives the existing utility company full control of the market.

This business model has allowed Canadian Utilities to churn out consistent dividends for shareholders. Over the past 42 years, the company's dividend has grown more than 16-fold. If you had bought and held the stock over that time, the yield on your original investment would be more than 35% today.

More increases are almost certainly on the way as the company's sales and earnings continue to climb. Thanks to the booming economy in western Canada, Canadian Utilities has one of the best growth profiles in the sector.

3. Canadian Pacific Railway Limited (TSX: CP)(NYSE: CP)

When Buffett is asked what the most important trait he looks for in a business is, his answer is always the same: an economic moat. Simply put, a moat is a competitive advantage that makes it difficult for rivals to compete.

No company illustrates this point better than Canadian Pacific Railway Limited. Even if you had $50 billion, chances are you couldn't create a viable competitor to the company. The cost to secure right-of-ways, buy out landowners, and lobby for regulatory approval would be outrageous.

This creates a nearly impenetrable barrier to entry. With little in the way of direct competition, Canadian Pacific has been able to crank out earnings and dividends for investors year after year.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
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