Invest Like Warren Buffett; 2 Canadian Stocks the Oracle Would Buy

Description

When new investors dabble in stocks, they're quick to say, "Hey, I'm no Buffett." But really, who better to emulate?

In contrast to metaphysical Elliott Wave Theory or fancy technical analysis, Warren Buffett's philosophy is grounded in common sense — buy wonderful businesses at a reasonable price and hold on for the long haul.

It was this approach that has made him the most successful investor on Earth. Unfortunately, it's a little harder for us Canadian investors to copy the Oracle. Beyond **Suncor** and **Restaurant Brands International**, Buffett doesn't have many holdings north of the 49th parallel.

That said, Buffett has written quite a bit about his investing method, so we can guess which stocks he might buy if he were based here. So with this theme in mind, here are two Canadian stocks Buffett might consider.

1. Canadian National Railway Company

Buffett has said before, "As long as more goods move from place to place in this country, rails are going to get their share."

Unfortunately, you can't mimic Buffett's holdings. His company, **Berkshire Hathaway**, owns the entire Burlington Northern Santa Fe railway. So if you're looking for a way to invest in the transportation sector, I suggest the **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI).

CN's status as a Buffett stock comes down to a few key points. First, like most railroad businesses, the company's network of track is virtually impossible to replicate. The cost to buy out landowners and right-of-ways forms a nearly impenetrable barrier to entry.

Shipping by rail is also less expensive than trucking over long distances. Today’s trains can move a ton of freight more than 430 miles on a gallon of diesel — four times more fuel-efficient per ton-mile than trucking. That gives CN a permanent cost advantage.

Of course, the true test of a wonderful business is how well it fares during times of uncertainty. That said, CN managed to raise its dividend through the financial crisis in both 2008 and 2009. And since going public in 1995, the company has increased its payout more than 18-fold.

I expect many more dividend hikes in the years ahead.

2. TransCanada Corporation

When Buffett is asked, what is the most important trait he looks for in a business, his answer is always the same: a big, wide moat.

A moat is some sort of competitive edge that allows a business to earn excess returns for shareholders. In the same way a trench protected medieval castles from attackers, a wide moat protects the business from rivals.

TransCanada Corporation (TSX:TRP)(NYSE:TRP) has dug a moat around its business a mile wide and filled with angry mutant sharks. The company’s main operations — oil pipelines and power transmission — are natural monopolies. It just doesn’t make sense to have two competitors serving the same market.

You could think of TransCanada like a toll road. The company charges a fee on every barrel that flows through its network. So while energy prices can be volatile from year to year, the actual volume of crude being transported through the company’s pipelines is remarkably consistent.

Pipelines don’t care about recessions or wars. They require almost no maintenance or labour. Buried deep underground, your investment is perfectly safe.

That means TransCanada generates cash flows (and dividends) that are steadier than bond coupons.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. NYSE:CNI (Canadian National Railway Company)
4. NYSE:TRP (Tc Energy)
5. TSX:CNR (Canadian National Railway Company)

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