Dividend Investors: 3 Stocks to Buy and Hold Forever

Description

Warren Buffett has become the best investor of all time by following a few simple rules.

All Buffett does is load up on shares of companies he thinks have a sustainable competitive advantage. He then sits on these shares over the long term; his favourite holding period is "forever." All that's left is to sit back, relax, and let compound interest do its thing.

Although this strategy seems really simple, regular investors have a hard time implementing it. In most things in life, you tend to get more out of something the more you put into it. That's not the case with investing. Often, the best investments are the ones you leave alone for decades.

Buffett knows this, and so do thousands of savvy Canadian investors. When you're only making buy decisions, it simplifies the investing process significantly. That's a good thing.

Are you looking to start your own buy-and-hold-forever portfolio? Start with these three stocks.

Smart REIT

When looking at traditional value metrics like price-to-book value and price-to-earnings ratios, **Smart REIT** (TSX:SRU.UN) appears to be a pretty crummy value.

There are several reasons why investors are willing to pay such a premium. The first is Smart's relationship with **Wal-Mart**. Smart has become Wal-Mart's developer of choice in Canada, accounting for 27% of its gross rental revenue.

Having Wal-Mart as an anchor tenant attracts a lot of foot traffic. This in turn attracts other retailers, even ones that compete directly with the behemoth from Arkansas. The strategy seems to be working, since Smart recently reported an occupancy rate of nearly 99%–a mark that's far better than its competitors.

Although Smart's 4.8% yield is low compared with its competitors, investors can take comfort in knowing it's about as safe as REIT dividends get. The payout ratio is under 80%, and that's before projected earnings growth in 2016.

Fairfax Financial

Many older investors who had the opportunity to invest with Buffett back in the 1970s or 80s are sure kicking themselves now.

Fairfax Financial Holdings Ltd. (TSX:FFH) could be the next best thing to investing with Buffett 30 years ago. It has a demonstrated history of growing book value by more than 20% per year. It has terrific insurance operations that generate plenty of float–capital that's used to invest in undervalued stocks. And with a market cap of just $16 billion, it has plenty of room left to grow.

Perhaps most importantly, it has one of the best in the business, Prem Watsa, calling the shots. Watsa successfully predicted the housing crash in the United States, netting billions for Fairfax shareholders when his bet paid out. These days, Watsa has used derivatives to place a huge wager on deflation. If North America or Europe get a meaningful bout of deflation, Fairfax shareholders will be very happy.

Fairfax has a current yield of 2.1%. The company's US$10 per share dividend doesn't look like it'll grow much, since Watsa is too busy putting the company's excess cash to work in other opportunities. Fairfax is a capital gains stock, not a dividend-growth one.

Saputo

Saputo Inc. (TSX:SAP) dominates Canada's dairy market. It also has operations in the United States, Argentina, and Australia.

The company is a growth-by-acquisition story. Turning milk into dairy products is a local business, since many items don't have long shelf lives. This means the business is very fragmented around the world with a lot of local operators. That's great news for a consolidator.

The big prize for Saputo will be Asia. As China and India get richer, their populations will be able to afford more milk products. Both nations can increase their dairy consumption by some 500% per capita and still be significantly under what we consume on a per-person basis in North America. That's a lot of extra milk.

The company has begun selling powdered products to food manufacturers in China out of its Australian operations, which is a great start. Look for it to make more acquisitions in the area in the future.

In the meantime, investors can enjoy the company's massive dividend-growth potential. The current yield is just 1.4%, but the payout ratio is less than 35%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

2. TSX:SAP (Saputo Inc.)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Author
nelsonpsmith