Why These 2 Companies Make Great Investments

Description

Value investing has long been looked to as a way of creating superior long-term returns. Many of the world's best investors incorporate this strategy over long periods of time. Iconic investors such as Warren Buffett began building their massive investment snowballs using time-tested strategies of "buying 50-cent dollars," as described by Benjamin Graham in *The Intelligent Investor* — in other words, buying those companies with equity valuations that are substantially less than their book valuations.

Over time, investors such as Warren Buffett have realized the need to adapt, adjusting their methodology over the years to include other valuable long-term factors, such as taking into consideration the respective brand equity and consumer loyalty of given companies, which ultimately contribute to durable competitive advantages, or "moats."

The industries that Mr. Buffett tends to focus on are "timeless" ones, which are often those least affected by market downturns, and those that churn out stable, steady results year after year. Mr. Buffett is willing to pay a small premium for these companies, arguing that it is much better to pay a "fair price for an wonderful company than an wonderful price for a fair company."

Arguments that companies such as **Fortis Inc.** (TSX:FTS)(NYSE:FTS) or **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) are poor investments because they trade at a slight premium can possibly be attributed to investors getting too tied up in "dumpster-diving" to recognize the long-term value that comes alongside a small premium for such companies.

I would vehemently argue that investors with a truly long-term investing time horizon should try to follow Mr. Buffett's advice instead of attempting to time the bottom of every cycle in the markets. A great company is a buy at 17.1 price-to-earnings as much as it is at 17.2. If an investor is looking to build a large position in a company such as Fortis or CNR, I would argue that the prices these stocks trade at today provide excellent long-term value. If the price goes down, investors should buy heavier; if the prices of these stocks go up over time, adding to the position in smaller chunks on the way up may be the way to go.

Bottom line

If Warren Buffett decided not to purchase shares of **Coca-Cola** or **American Express** or any of the other massively successful companies he purchased in the 1980s because they were trading slightly higher than their medium-term averages, he would have missed out on opportunities that are now worth billions of dollars.

If you believe that Fortis will continue to provide impressive earnings and dividend growth over time, and that CNR will be one of the key benefactors of economic growth in the coming decades, then failing to pull the trigger on these two companies could end up being the biggest mistake any long-term investor can make.

Stay Foolish, my friends.

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Date
2025/08/02

Date Created
2017/08/04
Author
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