Long-Term TFSA Investors: Beware of This Stock, Whose Moat Is Narrowing

Description

When it comes to selecting stocks for your TFSA, it pays to buy the stocks of solid companies that have durable competitive advantages in the form of a moat to keep competitors from stealing their slice of the pie. There's no question that technological innovation is increasing at an exponential rate. So too are disruptors, who leverage technology to steal meaningful market share away from incumbents.

It's hard to find a really wide-moat business these days with tech-titans threatening to leave a dent in the top-line numbers of many of the market darlings of the past. Few industries are immune from technological disruptors — not even the mattress industry, if you can believe that!

The wide moats of many companies are narrowing, and that's a growing concern for investors who have extremely long-term mindsets. These days, the average investor will buy a stock, only to dump it a few months later because of an unforeseen development that popped up.

A lot of the time, these unforeseen headwinds are in the form of an up-and-coming technological disruptor. So, to truly think long term (+10-year investment horizon), you'll need to thoroughly do your homework and consider any negative disruption, which may rear its ugly head over the next decade.

That's a difficult task, and unless you're an industry professional, it's seemingly impossible to get a grasp of every single disruptive force that could derail a long-term investment thesis. As an individual stock picker, how can you avoid stocks whose moats are slated to narrow with time?

Consider Warren Buffett's timeless piece of advice: "invest in what you know." It's a simple piece of advice that many beginners forget about. For any industry you're not knowledgeable about, you can easily learn enough, until eventually your circle of competence increases to include the industry you're thinking of investing in.

Everybody has their own circle of competence, and if you stay within it, you'll probably be able to foresee disruptive moat-eroders over the long haul.

Consider **Loblaw Companies Limited** (TSX:L), which, in the past, had a fairly sizeable moat in the number and proximity of its supermarket locations. When it comes to groceries, Canadians care about three things above all else: cost, convenience, and quality.

Loblaw has performed well in the incredibly razor-thin-margin business of groceries, passing over savings to its consumers in the form of lower prices. Quality is usually hit or miss, but when it came to convenience, the number of supermarkets in prime locations made it convenient for Canadians to do their weekly shopping.

Going forward, with the entrance of **Amazon.com, Inc.** (NASDAQ:AMZN), Loblaw will lose the convenience factor, as one could simply order their groceries from a firm that's thrived in low-margin industries with its impeccable logistics capabilities.

The Amazon effect will indeed be felt in Canada's grocery scene, and as a result, Loblaw's moat will erode away, as it scrambles to attract customers, which will be enticed by "free delivery" of groceries from one of the biggest disruptors of our time.

How does the next decade look for Loblaw?

Well, it doesn't look too peachy, especially when you consider the fact that the company is going to be forced to play the e-commerce game, as its prices are slashed further, leaving absolutely zero room for mistakes if the company is going to stay afloat with razor-thin margins being reduced to a mere sliver.

Stay hungry. Stay Foolish.

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2. TSX:L (Loblaw Companies Limited)

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