This Stock Could Be the Perfect Defensive Dividend Growth Investment for a TFSA

Description

Fellow Fool contributor Chris MacDonald recently shone a spotlight on the defensive nature of fast-food juggernauts like **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) and **McDonald's Corporation** (NYSE:MCD), noting that in the event of a recession, such fast-food stocks tend to suffer less downside than almost any other stock out there.

"I would encourage investors to take a look at the stock chart of McDonald's Corporation during the most recent recession, which hit the U.S. and global economy hard. The reality is easy to see – in selling what economists refer to as an "inferior good" (i.e., goods that see sales tick up when the economy does poorly), Burger King [and other fast-food firms] have the ability to continue to grow, despite (or perhaps because) of a poor economy," said MacDonald.

While it's apparent that fast food firms like McDonald's and Burger King have the ability to batten down the hatches in the event of an economic downturn, such fast food firms aren't exactly a run-of-the-mill "inferior good."

Such inferior goods tend to lose their appeal when the average consumer income drops, like during the financial crisis. While fast food may be seen as an inferior good to some, it's actually a "normal good" — a good whose demand is proportional to the direction of income in a phenomenon called the "income effect" to others.

Consider U.S. President Donald Trump and the Oracle of Omaha, Warren Buffett. Both men are billionaires, yet they still have an affinity for fast food, most notably McDonald's!

Moreover, Warren Buffett's daily routine is actually a prime example of the income effect in action.

In HBO's documentary, *Becoming Warren Buffett*, Buffett actually drives through a McDonald's as part of his routine and explains his options when placing his order: "$3.17 is bacon, egg and cheese biscuit, but the market's down this morning, so I'll pass up the $3.17 and go with the $2.95."

Clearly, fast-food items that may be considered inferior are clearly normal to Buffett.

Similarly, those of us who are relatively immune to lifestyle creep will continue buying the beloved flame-grilled Whopper or Big Mac regardless of how large our incomes become! In fact, in such a scenario, some of us may be inclined to add bacon to our Whopper to go with a side of chicken nuggets that we normally wouldn't order if times were tougher, thus fattening up your gut in conjunction with your wallet!

So, what should economists really consider the fast-food industry?

It really comes down to individual consumer preferences, which differs across demographics.

Sure, some fast-food consumers during tough times may instead opt to go to a fancy dine-in restaurant when times are better. But this isn't the case for everyone? Some see fast food as an inferior good, but, like Buffett, consumers within emerging markets and the younger generation (children and teenagers) see it as a normal good.

In reality, fast food is a good that exhibits the traits of both a normal and an inferior good. In other words, you'll get the best of both worlds independent of the state of the economy!

The normal good nature of the fast food kings with promising brands (Burger King, Tim Hortons, Popeyes, McDonald's and the like) are poised to profit profoundly from a strengthening global economy, which many pundits would agree will happen under the Trump administration with tax reform, regulation easing and the like. On the flip side, the "inferior goods" nature of fast-food will also allow the fast-food kings to hold their own in the event of a recession.

While I'd agree that the fast food industry leans towards the end of an inferior good, especially within developed markets, one must not discount the industry's "normal goods" traits, which make them absolutely wonderful to own when global economies are booming.

Add the above-average dividend yield of 2.93% and the capacity for double-digit dividend CAGR of Restaurant Brands' stock into the equation and you've got yourself an investment that'll rocket in an upmarket and be relatively insulated in a down market. Given these all-weather characteristics, investors should strongly consider beefing up their TFSA portfolios with Burger King owner Restaurant Brands today before the stock breaches the $100 level.

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