Is Canadian National Railway (TSX:CNR) Stock Running Out of Steam?

Description

There's no question that railway stocks can make great investments.

But you need to know what you're getting into ahead of time.

Many readers by now are probably aware of the time that Warren Buffett, owner of **Berkshire Hathaway** (NYSE:BRK-A)(NYSE:BRK-B) acquired railway Burlington Northern Santa Fe for $44 billion.

At the time it was touted as an "all-in wager on the economic future of the United States."

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After all, railways are responsible for transporting much of an economy's goods across the country from the factories that manufacture and ship them to the point of destination where they are ultimately sold to consumers.

So it goes without question that the railways would be tied to the growth of the overall economy.

The more goods an economy is demanding to be purchased and sold, the more goods that need to be shipped to their final destinations.

And the more that railways stand to profit.

It's also important to note that when Warren Buffett made that "all-in" bet on the American economy, that the U.S. economy was at the depths of its worst economic recession since the 1930s.

That was a time that many – some, at least – were fearing an all-out collapse of the modern economic system as we know it.

At the time the big bet Buffett made was seen as quite a risk by the rest of the investment community.

But nearly 10 years removed from that deal in 2018, things aren't – or at least don't appear to be – as uncertain as they were back then.

Most readers will acknowledge the relationship between risk and return and more specifically that investors more often than not are compensated for the amount of risk they take in a particular investment or trade.

Meaning that back when Buffett bought his stake in BNSF there was actually quite a bit at stake, but fast forward to today and a stake in **Canadian National Railway** (TSX:CNR)(NYSE:CNI) – there simply isn't a lot of risk present that you can expect to be compensated for.

On the one hand, Canadian National Railway does find itself in a bit of a transition year with first-quarter earnings down 16% and increased capital spending forecast for the rest of the year.

But at the same time, CNR stock is up 15% since the end of March.

There appears to be a bit of a disconnect there, am I right?

With earnings expected to grow only modestly in 2018, you might want to ask yourself whether it really is a smart idea to be sticking with this stock right now.

Bottom line

All this isn't to say that Canadian National Railway wouldn't make as a solid long-term investment for your RRSP account.

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I'm just saying maybe now isn't the best timing for the company's stock.

For dividend investors, Canadian National Railway stock is trading at a yield of just 1.69%, which isn't exactly going to make you rich while you wait, either.

To be clear, no one is suggesting that Canada's largest rail operator is about to go anywhere anytime soon, but for the time being, you may find that you'd be better off looking at something offering a little more upside today.

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