# This Railroad Is More Diversified Than You Think

## Description

Few investors may realize this, but **Canadian National Railway** (TSX:CNR)(NYSE:CNI) is not just the largest railroad in the country, but also happens to be a very well-diversified option for any portfolio with quite possibly the largest defensive moat across the entire economy.

Here's a recap of what Canadian National can offer and why the railroad is a compelling investment option for nearly any portfolio.

**Let's talk about railroads**

Most people know that railroads are huge, but few actually realize just how huge some railroads such as Canadian National are. In terms of size, Canadian National's network size is over 30,000 kilometres long, which ranks into some of the largest railroads both in North America and the world.

To put that massive size into perspective, Canadian National is the only railroad on the continent with access to three different coastlines, which by extension means ports on all three coastlines have access to goods hauled from elsewhere by Canadian National.

That large network size becomes even more important when considering the sheer volume of goods that Canadian National hauls – currently $250 billion worth of raw materials, goods, and products on an annual basis.

As impressive as that sounds, here's the main point to keep in mind – that massive network was built up a long time ago, and since then, cities, towns, and communities have developed around those tracks. To even consider the thought that a competing railroad can emerge and rival Canadian National's network would require billions in land acquisitions and billions more in construction costs.

Finally, there's a worthwhile point to note with respect to mergers.

Canadian National is one of seven Class 1 railroads operating in North America, and following a series of mergers and consolidations back in the 90's, the STB (Surface Transportation Board) imposed a series of criteria in 2001 by which railroads could complete a merger. Specifically, to approve a merger between two or more large Class 1 railroads, the merger would need to be in the public's interest, and subject to other conditions.

In recent years, attempts by several of Canadian National's competitors to merge and overtake Canadian National as the predominate railroad in Canada were abandoned after protests from multiple regulatory agencies on both sides of the border.

In short, Canadian National's moat is massive and not going anywhere, which should be a boon to investors.

Railroads aren't perceived as the most diversified investments, or at least not initially. The $250 billion

in freight that I mentioned earlier is broken down into a wide variety of products that range from agricultural products and automotive components to finished goods for retailers, crude oil, and raw materials.

**Why you should invest**

Canadian National's massive network and diversified mix of freight make the company a viable investment option, but the most notable point for potential investors is the impact of the railroad on the economy.

The massive amount of goods that are hauled by freight by railroads represents a massive proportion of the entire North American economy. Proof of this was evident last winter when an unusually harsh and long winter caused system-wide delays across the entire network.

Since then, Canadian National has invested heavily into infrastructure improvements and new locomotives to not only clear the backlog but also enhance service across the entire network.

One final point to contemplate is Canadian National's dividend. The railroad currently offers a respectable quarterly yield of 1.61%, which while not the most impressive yield on the market, has been subject to decent growth over the years.

In my opinion, a small long-term position in Canadian National is warranted for those investors looking for long-term growth and income-generating options.

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