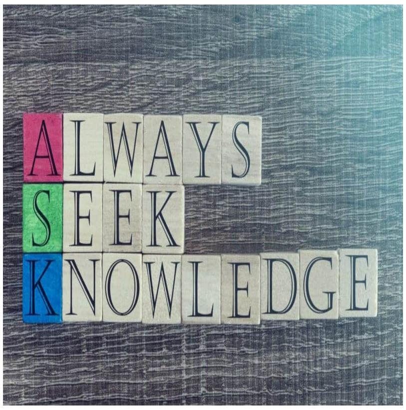

The Pros and Cons of Investing in Railroads at This Juncture

Description

Railroad stocks are commonly heralded for their advantageous investment traits.

For one, railroads and intermodal transport networks play a vital function in the economy, shipping goods across the continent to consumers and other businesses to be re-sold.

As they say, "business never sleeps" and railways are no different in this regard.

While seasonal factors can sometimes play a role, railways are operating 365 days a year, and in certain cases even 366 days a year.

And the defensive nature of that type of business usually provides for relatively stable operations and cash flows, paving the way for regular dividend payments and growth that is tied to the level of economic activity taking place at that time.

Canadian National Railway (TSX:CNR)(NYSE:CNI) is the quintessential railroad company in Canada.

While **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) has certainly garnered a lot of attention over the past couple of years, it's actually CNR that, despite CP's best efforts, offers the most extensive rail network.

Back when it was owned by the government as a Crown corporation, CNR was used by politicians to benefit the economic needs of Canada's more remote areas.

That type of agenda is typically not going to do a lot to help short-term shareholder returns, and frankly speaking, it would have been a very unpopular move had the company not been owned by the government at the time.

But it has paid off handsomely for those who have made an investment in the company in the years since then.

Because today CNR owns the better asset.

As the economy has grown increasingly interconnected over the years, that superior asset has in turn allowed CNR to charge its customers premium rates on shipments that other rail operators simply can't match.

And that's exactly why CNR is able to generate better profit margins and better returns on its capital than rival CP.

OK, so CNR is a better company than CP, or at least I think it is, but does an investment in rail road stocks even hold water right now?

Canadian GDP growth clocked in at just 2% for the most recent quarter, as business investment slowed and a lack of consumer spending didn't do much to help either.

Canadians aren't exactly saving a lot of money these days either.

It's just the opposite, in fact.

Canadian households are as indebted today as U.S. households were leading up to that country's financial meltdown.

Likewise to the state of affairs at UK households precisely before that country's housing setback took place, also.

It doesn't exactly look great for the economy right now, which means by way of relationship, it also doesn't look great for railroads – at least, not in the short to very-short term.

CNR's still a great company and CP's actually not all that bad either.

But up 600% since 2009 and trading at a dividend yield of less than 2%, I think I'd be holding out and trying to get a better price for my CNR shares.

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