3 Reasons Why Investors Need to Start Thinking About Selling Their Rail Stocks

Description

It was only a few years ago that world-renowned billionaire investor Warren Buffett paid US$44 billion to acquire Burlington Northern Santa Fe in a deal he referred to as an "all-in wager on the economic future of the United States."

Time proved Buffett to be on the right side of history (once again), as it's been an outstanding decade for the share prices of railway operators, benefiting first from the recovery of the U.S. economy after the "Great Recession," and, more recently, from lower fuel prices, which have helped railways to keep their operating costs in check.

But we know that nothing goes up forever.

Here are three things that investors ought to be considering when they evaluate the future prospects of an investment in either (or both) of Canada's two largest rail operators, **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP).

Rail stocks are economically sensitive

In recent weeks, the majority of the focus has been one of speculation on the course of action that the world's leading central bankers are likely to take at their upcoming meetings.

Granted, the economy — on the surface, at least — suggests things are doing just fine, but when the prospect of interest rate cuts becomes the focal point of discussion in terms of stimulating growth, rather than technological innovation or an expanding labour market, it would tend to suggest that the current economic expansion may be at risk of being on its last legs.

If businesses start holding off on making investments, and consumers begin tightening their purse strings because of uncertainty about the short-term future of the economy, the likely result is fewer shipments and volume on Canada's rail tracks.

Momentum in the rail sector is beginning to fade

The last few weeks have seen several major drops in the stocks of U.S. rail stocks, including the likes of **CSX** and **Union Pacific**.

And while CP Rail made a fresh new all-time high last week, growth in the share price of CNR looks as though it's beginning to stall, closing last week below its 200-day moving average, a key technical analysis benchmark used by long-term investors.

Given such a steep run up in value in recent years, any kind of reversal in trend or sentiment among rail stocks could end up resulting in a fairly sizable correction for the sector.

Valuations of rail stocks are already stretched

Even though the case could always be made that rail stocks are the quintessential buy-and-hold investment and thus shouldn't be over-traded, the fact of the matter is that CNR and CP are only paying out a fraction of their values via dividend right now, yielding 1.76% and 1.07% per year, respectively.

While I will acknowledge fully the vital role that Canada's railways continue to play as part of our economy, I think that, based on the available risk/reward scenario in the markets right now, investors can find better, more defensive alternatives in other pockets of the market.

Making the world smarter, happier, and richer.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/27
Date Created
2019/07/26
Author
jphillips