TFSA Investors: Is Buy-and-Hold-Forever Investing Still Effective?

Description

The buy-and-hold strategy is easy to follow on paper, but it's tough to put into practice, especially with the rise of technological disruptors that aim to threaten the business models of old-fashioned firms that once had sizable moats built around their businesses.

With the rapid rise of next-gen tech, does any company really have the concept of a moat anymore?

In a way, yes. But the concept of "moat erosion" is a real threat to firms that fail to keep up with the times. Thus, it's vital for companies within fast-moving industries to allocate funds to build one's moat, or they'll suffer from loss of market share.

Maintaining a competitive position is hard to do, and it requires a thorough analysis to avoid being in a "forever" firm that'll stand to lose share over time. Fortunately, there are specific industries where the barriers to entry remain naturally high, and it's these companies that it makes sense to own for decades at a time.

Consider **CCL Industries** (TSX:CCL.B), a manufacturer of labels, packaging, and packaging products — a dull, but necessary business that's built a sizeable moat around its niche market.

No, labels and packaging aren't exciting, and you're not going to get rich overnight like you could with a marijuana stock. What you are getting, however, is a cash cow that can serve as a foundation of stability for your portfolio. Moreover, CCL has the infrastructure and operating expertise to keep prospective new entrants out of its segment of the market. (Not that new businesses are dying to get into the labels and packaging space!)

CCL has a sizeable moat thanks in part to the nature of its industry, but what's fascinating about the name is that it's been building on its moat over the years through acquisitions. Back in 2016, CCL scooped up Checkpoint Systems and Innovia Films, two compelling businesses that allowed CCL to diversify its business and build on its already wide moat in its "dull" industry.

Moving forward, CCL's management team will look to improve upon its margins across segments, but as I mentioned in a prior piece, it will be tougher to score further margin gains, since it appears most of the low-hanging fruit has already been picked.

While the second-quarter results were negative given EBITDA margin pressures faced by the main CCL segment (down 110 bps), I don’t think long-term investors have anything to worry about, as it’s more of a bump in the road than the beginning of a downtrend. A sluggish global economy may temper demand for various consumer-packaged goods though, and that could send the stock towards 52-week lows.

While CCL has a wide moat that keeps getting wider, investors shouldn’t expect the name to be immune from an economic slowdown. At 20.8 times next year’s expected earnings, I don’t think there’s a margin of safety, so for those who aren’t keen on buying the post-earnings dip, it may make sense to wait for a better entry point.

CCL is by no means an expensive stock for the calibre of business you’re getting. Given a lack of timely catalysts though, I wouldn’t rush into the name at these levels. Do put the stock on your watch list or buy some shares if you’re looking to initiate a partial position for your buy-and-hold-forever fund. Just make sure you’ve got cash on hand for a further dip!

Buying and holding stocks forever isn’t dead. You just need to find the right name at the right price. And with CCL, you’ve got the right name. Now all you need to wait for is the right price.

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