2 Stocks to Buy to Prepare for a Recession

Description

The current economic climate is a bit shaky. The trade war between the U.S. and China poses a constant threat, and investors must find ways to navigate said threat.

To make matters worse, it now seems plausible that a recession is coming our way, perhaps not in the next few months, but definitely within a year and a half or so.

Naturally, it's essential to adjust your investment strategy accordingly and invest in stocks that can withstand an economic meltdown.

Looking to the railroad industry might prove worthwhile, and in particular, the two largest Canadian railroad companies are worth considering: **Canadian Pacific Railway Ltd** (TSX:CP)(NYSE:CP) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

Why invest in railroad companies?

A look at how both stocks have performed year to date is instructive. While equity markets started the year on a high note but eventually slowed down significantly, both Canadian Pacific and Canadian National have maintained a steady upward rhythm for the entire year.

Since early January, CP and CNR are up by 25% and 22%, respectively. This generally steady trend extends far beyond just this past year, however. Both firms have provided steady gains to their shareholders over the past five years.

What explains this performance? One chief factor behind why these major railroad companies generally perform well in the long run is the important role they play in the economy.

Billions worth of goods are transported every year — mostly by major business — and doing so by way of railroads is one of the best options available. Trains arguably provide the best combination of cost efficiency, speed, reliability, and the ability to transport a significant amount of goods.

Further, the industry poses strong barriers to entry. Railroad companies are capital intensive and have a virtual monopoly over the areas they serve.

Canadian Pacific and Canadian National both have maps that extend through almost the entire length or width of the inhabited Canadian territory, and into several U.S. states. They are both well-positioned to continue dominating their respective markets for years. After all, both have been around for more than 100 years.

The bottom line

Notably, the market performance of both companies is backed by strong revenues and earnings growth. During its latest reported quarter — Q2 2019 — Canadian Pacific reported a 13% revenue increase, while the company's net income and earnings per share grew by 66% and 70%, respectively.

Meanwhile, Canadian National reported much less impressive revenue growth of 9% and a net income growth of 3%. More important, however, as both companies continue playing a critical role in the economy, their prospects likely won't diminish.

Sure, they will be always be bumps along the way, but betting on either Canadian Pacific or Canadian National in these uncertain times is a much safer bet than most other options on equity markets.

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1. Investing

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2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
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Date
2025/08/27
Date Created
2019/09/17
Author

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