Retire in Peace With These 2 Railroad Stocks

Description

Railroad stocks have been perfect retirement investments for decades. There's good reason for this. Railroads are as close as it gets to a monopoly. Often, they're the cheapest transportation option, especially across long stretches of land. In addition, there's very little competition. If a railroad owns a certain route, your only option is to pay up or walk.

Because of their monopoly-like characteristics, railroad stocks have performed incredibly well for nearly a century. Over the last 20 years, for example, shares of **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) have returned between 1,000% and 2,000%. They've also shined during economic downturns. During the 2008 financial crisis, both Canadian Pacific and Canadian National outperformed the overall market. And did I mention both stocks have paid a steadily growing dividend for nearly two decades?

When it comes to retirement stocks, Canadian Pacific and Canadian National are ideal picks.

Monopoly businesses

According to Fool contributor Prosper Bakiny, Canadian Pacific and Canadian National are ideal stocks to own during a recession. "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," Bakiny explains. "Trains arguably provide the best combination of cost efficiency, speed, reliability, and the ability to transport a significant amount of goods."

Even during the worst economic downturns, railroads are largely insulated from headwinds. After all, when cost cutting is front and centre, transitioning to rail transport is at the top of many customer's lists. Over the last 15 years, both Canadian Pacific and Canadian National have *never* posted an annual loss. For example, 2012 was Canadian Pacific's worst year in decades, yet it still generated profit margins of 8.5%. Now that's a durable business model.

Take the pain

A recession is just around the corner, or at least that's the conclusion of a recent survey by **Bank of America**. The survey asked 235 fund managers how likely a recession is over the next 12 months. The results suggest that the risk of recession is at its *highest level* since 2009. According to one railroad executive, these recession fears have evidence behind them.

In August, railroad operator **CSX** posted weaker-than-expected results, forcing it to slash full-year guidance. According to CSX CEO James Foote, today's economic backdrop is "one of the most puzzling I have experienced in my career." CSX stock dropped 10% in response to the troubling update. If pressure hits the rest of the industry, prepare to load up.

Railroad stocks have been winning investments for decades because they offer permanent competitive advantages. Their economic moats are unparalleled, and their structural cost advantages continue to strengthen. There will be cyclical pain, just as there is in any other industry, but long term, railroads will prevail. If there's short-term weakness in the stock price of Canadian Pacific or Canadian National, strongly consider using it to your long-term advantage.

CATEGORY

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

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