1 Great Stock I Plan to Never, Ever Sell

Description

A lot of investors talk a good game, but then they do the exact opposite.

I see this all the time as certain companies test investor patience. When entering in the investment, these folks will say they don't care if the stock doesn't do anything for years; they're happy to own it until the rest of the market wakes up to the opportunity. It's a buy-and-hold-forever stock, in other words.

But then, I'll discover later that these same investors sold after a few months, either because they were frustrated with the performance, or convinced the stock's flat returns were proof the market knew something. Then, inevitably, the stock rockets higher while the original investor has pivoted to something else.

I know I've sure made this mistake in my portfolio before. How about you?

Let's take a closer look at one buy-and-hold-forever stock I've been recently accumulating in my portfolio — the kind of company I plan to never, ever sell. Maybe it would look good in your portfolio, too.

An excellent company on sale

Last month wasn't the first time I'd bought **H&R REIT** (TSX:HR.UN) shares. I'd added more shares to a position I first bought back in 2016, back when shares traded below $20 each.

Although shares don't look in danger of falling below $20 again, the stock did recently fall below $21 for the first time in close to a year. The company's net asset value, meanwhile, is in the $25-per-share range. I like that discount.

So, why exactly are shares falling, anyway? H&R is being hit on a number of fronts, all short-term issues that I predict won't matter in the slightest a year from now. Investors are nervous because **Encana** — the main tenant in H&R marquee office tower in Calgary — announced a plan to move the company's headquarters to the United States, even though this won't affect any Canadian jobs at all. Investors are also worried interest rates will go up.

Finally, H&R posted some lacklustre results in its latest quarter, including an unexpected drop in operating income. This was caused by a decrease in occupancy. Management was quick to inform investors this should only be temporary, but the damage was done.

Growth initiatives

One of the things I really like about H&R REIT is, the company continues to expand and diversify.

The portfolio today consists of a lot of retail, office, and industrial space in Canada, although the company also has some U.S. assets — like a one-third ownership stake of ECHO, which owns retail space in the country. So, by expanding into U.S.-based residential real estate, management is diversifying into two areas where the company is weak.

The company has been busy both buying up existing apartments and developing its own. It just completed luxury apartments in a suburb of New York City, and its Miami mixed-use development will be completed in 2020. Other projects on the go include residential suites in Seattle, Long Beach, and Hercules, which is a suburb of San Francisco.

In total, once these complexes are completed, H&R's apartment portfolio will easily surpass 10,000 units. It's also in the early stages of developing apartments in Toronto, too.

Get paid to wait

I think H&R shares could easily be 10-20% higher a year from now. But as we all know, the market is fickle. There's no guarantee the stock marches higher, despite being undervalued.

But that's okay, since investors are treated to H&R's dividend as a consolation prize. The current payout is 6.6%.

Some people might worry that such a dividend isn't sustainable, but H&R's payout should be just fine. The payout ratio is under 80% of funds from operations, which is a solid result for a REIT.

And remember, if shares do increase 10% over the next year, you'll be looking at close to a 17% total return. That's not bad.

The bottom line

H&R REIT is an excellent stock to own over the long term. You'll like its diverse asset base, solid dividend, and relentless expansion plans.

The only issue is, the market might not be so quick to agree with us on this one, and we might have to endure years of flat returns. But that's okay; the stock will eventually be worth it.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:HR.UN (H&R Real Estate Investment Trust)

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Author
nelsonpsmith