2 Wide Moat TSX Stocks to Buy if the Market Corrects

Description

Investors should consider the status of a company's "economic moat" when deciding whether or not to add the stock to a long-term investment portfolio. Coined by Warren Buffett, an economic moat is a quality that allows companies to maintain a strong competitive advantage for decades on end, with a "wide" moat being 20+ years.

Wide moat companies tend to be those that operate in monopolistic industries, allowing them to fend off competition and maintain their profitability. This translates into stronger, steadier returns over time. The TSX is full of sectors with companies that exhibit these traits, notable in banking, energy, transportation, and industrials.

Candidate #1: a railway stock

When it comes to keeping competitors at bay for decades, few companies have done as well as **Canadian National Railway** (TSX:CNR)(NYSE:CNI). This is primarily due to its efficiency of scale. CNR is able to provide trans-national shipping services unrivalled by trucking or cargo jet companies.

CNR operates in a virtual duopoly with **Canadian Pacific Railway**. With the infrastructure of both companies dominating the Canadian landscape, there is little incentive for new competitors to even try and scale up to beat them. Both companies have been immensely profitable for decades and look to continue this.

The future of CNR still looks bright thanks to its cost advantages. As of now, hauling freight by railway is the most affordable option. Trucks, barges, and cargo jets cannot offer the same low value-per-unit-weight metric that railways can, nor can they match their fuel efficiency. This gives railways an immense competitive advantage.

Candidate #2: an industrial stock

What is the common thing all societies produce? Garbage. It is a often ignored byproduct of civilization, but also an important economic driver. We spend immense sums of money storing and disposing of garbage. When it comes to who we pay to do this task, it turns out there are scant options out there.

Enter **Waste Connections** (TSX:WCN)(NYSE:WCN), a waste management company that provides non-hazardous waste collection, transfer, disposal, and recycling services in the U.S. and Canada. WCN possesses a strong moat thanks to its intangible assets, which prevent competitors from duplicating their services or charging a better price.

Imagine starting a waste management company. You would need regulatory permits for landfills, federal, provincial, and municipal government approvals, environmental assessments, etc. The chances of a new upstart company acquiring all of these to rival WCN is remote given how costly and time consuming they are to secure.

The Foolish takeaway

Long-term investing (especially if you're stock picking) should focus on buying great companies that provide staple services or products. Instead of being blindsided by flashy, high-growth tech companies, consider the boring but essential industries. These companies are often mature, stable, profitable, and highly competitive.

One question I like to ask is "how bad would it be for society if this company disappeared"? If a railroad, bank, telecom, utility, or industrial company vanished suddenly, Canadians would absolutely feel the effects. Therefore, Canadians should focus on finding companies with sustainable competitive advantages to invest in for the long term.

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