Investors: This Wide-Moat Canadian Stock Looks Beyond Undervalued

Description

It's hard to find Canadian stocks or REITs that are beyond undervalued, unless there's something troubling the broader markets. These days, there's no shortage of things at the macro level to fear. Indeed, the Fed's balancing act between raising rates and tempering inflation are the main talk of the town. With Russia's invasion of Ukraine adding more heat to inflation, heightened geopolitical risks are enough to leave any investor in a mood to do a bit of selling.

After falling into a bear market in the second half of 2022, the S&P 500 seems ready to move on and hit new highs. Still, many doubt the sustainability of this rally. We were already dealt a sharp bear market bounce earlier in the year. Many dip-buyers may be telling themselves that they will not be fooled (that's a lower-case *f*, folks!) again!

Don't fear the grim outlook

Nobody knows when the next bear market bounce will be or if this is the start of something more meaningful. The big-league market strategists seem split on what to make of the recent weeks of market relief.

For Canadian investors, I'd argue that it doesn't matter. Treat any near-term projections with a fine grain of salt. At the end of the day, not even the smartest economist on the planet knows how the market will behave next week or next month. What we do know is that over the long term, markets tend to rise. Markets may not rise this year or even next year, as firms grapple with a potential recession.

In any case, buying downturns, bear markets, and corrections are a fine way to boost your total returns over a very long-term horizon. Remember, it's the horizon you intend to invest in that matters most — not the weekly or monthly horizon that options-buying traders on TV possess.

Stick with well-run firms with wide moats. At this juncture, **CN Rail** (TSX:CNR)(NYSE:CNI) stands out to me as a solid long-term buy for investors willing to look beyond the weak medium-term outlook.

CN Rail: A Dividend Aristocrat with Canadian investors' name on it!

CN Rail is a top Canadian rail that has a virtually impenetrable moat. Further, the firm has a new leadership team under newly appointed CEO Tracy Robinson. CN Rail's operating ratio hasn't been the best since the pandemic began. Many rivals may have outpaced the firm on the efficiency front. Still, CNR stock has still done decent, with nearly 10% in returns over the past year. That's nothing to complain about, given the S&P 500 flirted with a bear market earlier this year!

CN Rail is capable of so much more, though. That's why activists pushed for change at the helm. They got it, and I think Robinson is the right person to get CN back on the right track, even if the hand dealt to her is not the best in the world, with a recession on the horizon.

In any case, the industrial behemoth is getting too cheap, given the width of its moat. At 21.3 times trailing earnings, CN boasts a 2% yield. That's incredibly bountiful for a proven dividend grower.

My takeaway? Buy the recent dip.

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