



## \$183 for Toilet Paper and Cups: Why We Love Costco Stock

### Description

Each month, the Fool Canada investing team gets together for a wide-ranging hour of stock talk – we call it Fool Canada Power Hour.

Here, [Stock Advisor Canada](#) advisors Buck Hartzell and Jim Gillies talk about why they think **Costco** ([Nasdaq:COST](#)) is a smart investment.

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**Buck Hartzell:** I always like to feel good about how I spend my discretionary money. My kids get reminded all the time – they're sick of hearing this – that if we buy See's Candies, a little tiny bit of that is coming back to us because we own the parent company, **Berkshire Hathaway** (NYSE:BRK-B).

We happen to get some great peanut brittle, too. And that's a good thing: You need some fun stocks in your portfolio. You can't have only banks and mining companies and explorers and that stuff. There's nothing we can get out of them except for a barrel of oil. I mean, you need some fun things in your portfolio.

**Jim Gillies:** This is why I'm a regular buyer of Costco stock. Because every time I go to Costco, I look at everybody around me. There's a lot of people around me because it's always packed. They've got the giant supersized shopping carts; they are always full. That guy's buying a beach umbrella, that guy is buying a new vanity for a basement bathroom. This happens every single time I go. I'll go in for milk and eggs and I end up spending \$200 on stuff that I didn't need.

**Buck Hartzell:** I was there twice this week. I went specifically to get red Solo cups and toilet paper. That was my mission. I took my older son with me, which was my mistake. I ended up spending \$183. I'm like, what did I get? He wants these cookies, and there's all this other stuff. I ended up with a whole cartload of stuff and I literally went up there to get two things. Unfortunately, it's only about two miles from my house, so it's a convenient commute, too.

**Jim Gillies:** But every single time I walk out after that experience – and I've said that I've bought Costco multiple times – every single time, I do not own enough Costco. I know there has been a valuation argument against Costco for years. I've been hearing about it since it was sub-\$100 a share.

I think now it's north of \$500. I'm just here to say, as someone who does a lot of work on valuation .... with Costco, you just need to throw the valuation model out the window because it's like, the dynamics of that industry, the dynamics of what they've created, and a \$1.50 hotdog – it's just such a great company.

**Buck Hartzell:** We had the pleasure of meeting [former CEO] Jim Sinegal, who came to The Motley Fool to talk with our analysts. He's a remarkable person. Answered his own phone when he was CEO. Didn't have a secretary or anything else, did all his own stuff.

Charlie Munger sits on only three boards: Berkshire, **Daily Journal** ([Nasdaq:DJCO](#)), and Costco. Munger was willing to sit on Costco's board. That's pretty telling right there.

I think the other thing that people have said about Costco is that the percentage of their population, which I think was close to 50 percent recently, were also Amazon Prime subscribers. That was a risk, and I think they asked Munger about it and said, "Are you worried that half your members are also Prime members?" He goes, "Well, maybe **Amazon** ([Nasdaq:AMZN](#)) should be worried that a lot of their members are Costco members."

It's just such a well-run organization, and my family spends a lot of money at Costco. The company's sales will go up and down a little bit with gas prices because they sell a lot of gas there. As gas comes down, that'll hit their top-line revenues, so they'll see fluctuation there just because of gas prices.

**Jim Gillies:** For the record, I don't think anyone should dump Costco shares just because of falling gas prices!

For years, one of the things investors would say about Costco was that they are basically selling most of their goods at cost. If you looked at their operating profit, 90-plus percent was just coming from the membership fees. But what I noticed the last time I did an update on my Costco model was that around 75% to 77% of operating income was attributable to the membership fees. This means they are actually starting to make more profit on the vast amount of goods they sell. That's an argument – if anything else – in favor of adding more Costco shares to your portfolio.

## CATEGORY

1. Investing

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1. NASDAQ:AMZN (Amazon.com Inc.)
2. NASDAQ:COST (Costco Wholesale Corporation)
3. NYSE:BRK.B (Berkshire Hathaway Inc.)

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