



A Sobering Outlook From Canada's Buffett

Description

The media is making a pretty big deal these days of massive piles of cash rotating into equities and indices once again nearing their pre-crisis highs. You may be feeling the pressure to “get in now before it’s too late”. One person who is clearly not feeling this pressure is Mr. Prem Watsa, CEO of **Fairfax Financial (TSX:FFH)**. Watsa’s career as an investor is one of the best. When he speaks, you should listen.

Fairfax reported its Q4 and full year 2012 results on Thursday. There is a pile of information on the company’s insurance subsidiaries, but what investors tend to zero in on is how Watsa is managing the company’s float. The answer is – conservatively.

The two most obvious bits of evidence that support this claim are:

1. At the end of 2012, cash and short-term investments in the portfolio amounted to \$8.1 billion. This compared to just \$6.9 billion at the end of 2011. As a result of this move to cash, interest and dividend income in 2012 checked in at \$409.3 million vs. \$705.3 million in 2011. Nearly \$300 million lower! Not exactly chump change.
2. The equity portfolio remains 100% hedged. In 2012, the equity hedge turned what would have been a net gain (realized + unrealized gains) from equities of \$1.1 billion into a net gain of just \$113 million.

In the short-term, Watsa’s conservative stance is costing the company money. Longer term, if his economic concerns are validated, Fairfax is going to be very well positioned to take advantage of a tremendous buying opportunity. Just like it was the last time the market cratered.

The Foolish Bottom Line

Contrary to what many of the headlines, and talking heads, would like you to believe, “everyone” is not rushing into the market. Highly regarded investment gurus like Watsa see darker days ahead and are well positioned to take advantage if their forecast plays out. If the pressure is too much and you feel you must act, it would be prudent to at least keep some dry powder, just in case. Prem has been right before.

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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