



Billionaire Prem Watsa's Top 3 Canadian Stock Picks

Description

It's no exaggeration to say that Prem Watsa may be the greatest investor in Canadian history. Over the past 10 years the Chief Executive of **Fairfax Financial Holdings** has generated a compounded annual return of almost 10% earning him the nickname 'Canada's Warren Buffett'.

How does he do it? Watsa makes his money by questioning conventional wisdom, retrenching when others are optimistic, and backing unloved companies. So what Canadian names does Watsa own now? Let's take a look.

This stock is trading below liquidation value`

Prem Watsa is used to challenging the street's consensus, but he has probably never been more alone than he is right now regarding his views on **BlackBerry** (TSX:BB, NASDAQ:BBRY). Fairfax is BlackBerry's biggest shareholder holding more than 9.9% of outstanding shares.

What could Watsa possibly see in troubled smartphone manufacturer? Well for one it's absurdly cheap. With a market capitalization just north of \$5 billion, the stock is trading below the company's liquidation value. In theory, you could shutter the business tomorrow and still turn a profit.

Second, despite its recent woes BlackBerry still has an iconic global brand with a great reputation for security. And while the company's smartphone business is struggling in developed markets, BlackBerry is still doing well in fast growing emerging economies

As new Chief Executive John Chen pointed out in a [recent op-ed published](#) on *CNBC.com*, the company has a great set of assets that are often overlooked by pundits including BlackBerry Messenger, mobile device management, and the QNX operating system. A new company could emerge from the ashes worth many times more what it is today.

How to find hidden value in abandoned stocks

Fairfax's second biggest position is another odd choice: **Resolute Forest Products** (TSX:RFP, NYSE:RFP).

Many investors skip over this stock entirely because of the ugly fundamentals. Resolute's business –

newsprint and paper products – is in obvious decline. The company hasn't turned a profit in a year. And Resolute is burdened by a huge underfunded pension liability.

But sometimes there's opportunity in picking through what other avoid. In the case of Resolute, the company has a lot of assets that investors have overlooked. Bankruptcy and years of losses has totaled over \$2 billion in deferred tax assets. As the company returns to profitability, it might be able to avoid paying the tax man for up to 20 years.

In addition the scary pension deficit is mostly due to exceptionally low interest rates. But even a small 2% to 3% bump in rates would close this gap significantly. And while the industry may be in secular decline, rising housing starts south of the border and cost cuts could be a big boost Resolute's profitability.

Investors have been pricing in the worst, but it's not hard to see a viable business here.

Earn a 5% yield from this telecomm stock

Not every investment has to be complicated. Sometimes the best ideas are hidden in plain sight. And that's definitely the case with **BCE** (TSX:BCE, NYSE:BCE).

BCE is one of those forever stocks; a giant, cash-rich company with a track record of rewarding shareholders. As we saw this summer with **Verizon's** failed attempt to enter the Canadian market, tall barriers to entry prevent even the most well capitalized competitor from entering the market. This will allow BCE to earn excess returns for investors for years to come without the worry of rivals eating into margins.

The company also returns an enormous amount of cash for shareholders. Today, the stock yields over 5% – almost twice the going rate on a 10- year Government of Canada bond. And over the past decade, BCE has almost doubled its distribution payout.

It doesn't take a PhD to figure out that this stock will continue to reward shareholders year after year.

Foolish bottom line

Prem Watsa has proven that betting against the consensus is the key to generating outsized returns. And it never hurts to borrow an idea or two from the best in the business. It's time to add these names to your watchlist.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. NYSE:BCE (BCE Inc.)
3. TSX:BB (BlackBerry)
4. TSX:BCE (BCE Inc.)

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