Why “Canada’s Warren Buffett” Still Deserves His Nickname

Description

It’s a humbling time for some of the world’s best investors. For example, this is the first time in history that Warren Buffett’s **Berkshire Hathaway** wasn’t able to grow faster than the S&P 500 over a five-year period. The problem, which is a blessing for most people, is that the stock market has performed so well over the past half-decade. Value investors like Mr. Buffett tend to outperform the most during bear markets, which explains why he has lagged recently.

But Mr. Buffett’s results have been exceptional compared to the man often referred to as “Canada’s Buffett,” Prem Watsa, Chairman and CEO of **Fairfax Financial Holdings** (TSX: FFH). In the five years from 2009 to 2013, during a time when the S&P 500 has returned 18% annually, Fairfax’s book value per share has grown by only 4.0% per year.

2013: A struggle

Last year, Fairfax’s performance was even worse. The company’s book value per share actually shrank by 10% in a year when the S&P 500 expanded 32%. One of the problems has been the company’s common stock portfolio, with **BlackBerry** (TSX: BB)(Nasdaq: BBRY) standing out in particular. At the end of 2012, Fairfax owned approximately 10% of the company at an average cost of $17 per share.

Fast forward to today, and BlackBerry trades at $8.66 per share. But Mr. Watsa isn’t worried, reminding everyone that the best time to own shares of a company is at a time of maximum pessimism. He also had plenty of praise for John Chen, who took over BlackBerry late last year. Fairfax will not be selling its stake in BlackBerry any time soon.

Another drag on Fairfax’s performance was Mr. Watsa’s pessimism towards the markets. As a way to insulate the company from declining stock prices, Mr. Watsa held a majority of the investment portfolio in cash and bonds, and the stock portfolio was fully hedged. In fact, the common stock hedging decision has been an expensive one in particular, costing Fairfax $3.5 billion since 2010.

Still a great track record

Despite the struggles over the last five years, Prem Watsa is still the closest thing Canada has to Warren Buffett. Fairfax has grown book value per share by 21% per year since 1985, an incredible long-term track record. And the growth has also been relatively smooth. For example, the company's book value per share grew by 21% in 2008, the best mark in its industry, while everyone else was losing money left and right.

Foolish bottom line

At $473 per share, Fairfax currently trades at 1.4 times book value. This is not an outrageous price to pay for a company, and a CEO, with such a great track record. But it does require at least some faith that Mr. Watsa still deserves his nickname, despite his recent struggles. Long-term investors should be able to look past the noise, making Fairfax shares still a great stock to own.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)
3. TSX:FFH (Fairfax Financial Holdings Limited)

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bensinclair