



## Why Every Investor Should Own Fairfax Financial Holdings Ltd.

### Description

Here at Motley Fool Canada, we spend a lot of time talking about Canada's most popular stocks. Why?

Mostly, because the stocks in the TSX 60 tend to get the most attention. It only makes sense that we would focus most of our attention to the stocks that investors want to know about. The biggest companies in Canada tend to be household names, and investors perceive an extra sense of security from owning them.

This leads to the average Canadian investor with a portfolio that may be diversified among many different sectors, but is primarily invested in large cap companies. It's not that this is a bad thing — after all, there are far worse investing sins than buying blue chip stocks — but it means investors don't have a lot of exposure to smaller Canadian companies.

There are two disadvantages to this. By focusing on the 60 or 100 largest Canadian companies, investors aren't going to get in on the ground floor when the latest tech or market disrupting company comes to market. Sure, your chances of finding the next **Microsoft** might be exceedingly small, but it's impossible if you don't look at smaller companies.

Additionally, small-cap stocks tend to perform better than their large-cap brethren. Because the small-cap market doesn't get nearly the coverage as larger companies do, pricing inefficiencies are much more common. Many of the great investors — including billionaire Warren Buffett — got their start by finding deals in the small-cap space.

One way for investors to get exposure to small-cap stocks is to just buy an ETF. That's not a bad idea, but what if there was a better way? What if you could get an experienced stock-picker with a history of trouncing the market over the long term, and get him to work for you practically for free?

It turns out there's a really easy way to do that. Just buy shares of **Fairfax Financial Holdings Ltd.** ([TSX: FFH](#)).

**A wonderful, underrated company**

After studying Warren Buffett's approach with **Berkshire Hathaway**, Prem Watsa became CEO and Chairman of Fairfax in 1985. And ever since his results have been nothing short of spectacular. Thanks to nearly three decades of shrewd acquisitions, investing in undervalued stocks, and, like Buffett, using insurance premiums as a form of free leverage, Watsa has increased Fairfax's book value by more than 20% annually. And that's even after some serious underperformance over the last couple years.

While Watsa has made some high profile investments over the years, he and his team still specialize in one area — undervalued Canadian small and medium sized stocks. Watsa's holdings include companies that other investors have left for dead, like struggling newspaper publisher **Torstar Corporation** ([TSX: TS.B](#)) or women's clothing retailer and dividend growth all-star **Reitmans (Canada) Limited** (TSX: RET.A).

By investing in Fairfax, investors not only get a proxy to the performance of many of Canada's smaller stocks, but they also get a manager with a history of long-term success working in their favor. Plus, Watsa eats his own cooking, holding nearly all his personal net worth in Fairfax shares.

### **But wait, there's more**

Remember how I mentioned Watsa's underperformance over the last couple years? That's because he's taken a bearish position against the market. Watsa's equity portfolio is 100% hedged.

The reasoning is simple, albeit controversial. Watsa sees another huge credit crisis upcoming. This time, he thinks China is going to be the cause of the next economic slowdown. A combination of a crash in the Chinese housing market along with cracks starting to appear in the entire Chinese economy should be enough to do it, at least according to Watsa's last letter to shareholders.

Scoff at this idea all you want, but remember that Watsa was moving against the U.S. housing market as early as 2002, before having a large part of his portfolio short the sector by 2006. That one investment netted Fairfax billions.

Watsa has a history of thinking outside of the box. That's why you should invest in Fairfax. It's that simple.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:TS.B (Torstar)

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1. Investing

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