



Fairfax Financial Holdings Ltd.: Invest in Canada's Warren Buffett

Description

While billionaire investor Warren Buffett gets all the attention, there's another man quietly building up a record that rivals that of the Oracle of Omaha's.

That man is Prem Watsa, the Chairman and CEO of **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)), a company that is quietly becoming more than a miniature version of **Berkshire Hathaway**. Since Watsa took over the company in 1985, he has successfully turned the then-struggling Fairfax into an insurance juggernaut.

Like Buffett, he has successfully invested the float the insurance division generates into a portfolio of undervalued stocks. And like Buffett, he's been pretty successful at it too, increasing Fairfax's book value by 20% annually since he took over.

Watsa is a classic contrarian investor. Over the last few years, he's profited handsomely from such beaten-up stocks as the **Bank of Ireland**, **BlackBerry**, and **Resolute Forest Products**. Watsa bought each of these companies while they appeared to be on life support and was rewarded, especially with the Bank of Ireland.

Fairfax's main man isn't just buying large companies. By investing in the company, investors are getting access to many smaller enterprises as well. Let's face it, most investors don't venture outside of Canada's largest 100 stocks or so. It's easy to build a portfolio using the giants, so that's what most of us do. But small-caps are an important asset class to own, since they've been shown to outperform their larger cousins over time. Fairfax is a great way to get exposure to a hand-picked basket of undervalued small-caps.

But Watsa isn't just skilled at identifying undervalued stocks. He's also predicted just about every major macroeconomic event since the crash of 1987. He successfully called the top of the Japanese stock market in 1990, the unreasonable valuations of the tech bubble of 1999, and then starting in 2003, Watsa made a bearish bet on U.S. housing. Sure, he was early, but the investment ended up paying off handsomely for Fairfax — the company turned a profit on the trade of nearly \$2 billion.

These days, Watsa is making yet another bearish macro call, this time on equity markets in general.

He has completely hedged Fairfax's portfolio, which would lead to a huge outperformance if the stock market fell. Essentially, Fairfax would be a great investment to make if you're bearish on stocks. What other company in Canada can offer that kind of inverse bet?

Plus, Watsa eats his own cooking, so to speak. He has stated he has 99% of his net worth in Fairfax shares, which gives him control of about 10% of the company but 50% of the voting rights. With his track record, investors shouldn't be nervous about giving Watsa that much control. He's earned it.

Fairfax is a relatively cheap stock as well. It trades for just a little above its book value, and has a price-to-earnings ratio of approximately 7x. Considering the company's stellar insurance business, the growth in book value over the years, and the success of Watsa as manager, it's easy to make the argument that the stock is too cheap.

Fairfax is unlike any other company in your portfolio, which is exactly the reason why it should be there. Not only will it serve as a hedge against declining equity prices, but you can't argue against Watsa's success in managing it over the years. Those are two pretty powerful forces to have on your side.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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Author

nelsonpsmith

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