# Fairfax Financial Holdings Ltd.: Just Buy This Forever Stock Already

## Description

Even though Warren Buffett gets all the attention, there's a Canadian investor who has a track record nearly as impressive.

That man is Prem Watsa, the CEO, chairman, and chief investment officer of **Fairfax Financial Holdings Ltd.** (TSX:FFH). Since Watsa took over the company in 1985, growth has been phenomenal. Fairfax's book value has increased 20% annually over the 30-year time frame, which absolutely crushes the performance of every other stock market in the world, and most publicly traded companies as well.

**The similarities — and the differences**

Fairfax and **Berkshire Hathaway** have a lot in common. Both use an underlying insurance business as a way to generate a cheap form of leverage, giving the guys in charge an ample supply of capital to invest in undervalued stocks. But unlike Buffett, who mostly sticks to buying businesses, Watsa is happy to make macro calls on big picture issues. He predicted the U.S. housing crash, using derivatives to make billions on that trade.



He's now turned his attention to China, which looks to be at the peak of its own housing bubble. Watsa has his entire equity portfolio hedged in anticipation of an event in China causing a massive worldwide sell-off in stocks.

Investors are getting access to Watsa's record for a cheap price as well. Fairfax's book value comes in at approximately $470 per share, putting the company at just 1.4x book value. That's cheaper than the Canadian banks, telcos, and even Berkshire Hathaway, which trades at approximately 1.5x book. Fairfax also trades at just 7.2x earnings.

**How is a company like Fairfax trading at such a low valuation?**

Investors are bullish right now, which means some are avoiding Fairfax because of Watsa's bearish hedge. Others point to recent disappointing investment results as proof that Watsa has somehow lost his edge. Like with Buffett, whenever that kind of talk happens, Watsa usually has the last laugh.

Plus, Fairfax offers investors a way to invest in small-caps, an area of the market that most investors tend to ignore. Although Watsa is probably best known for his investment (and subsequent failed takeover offer) in troubled handset maker **BlackBerry**, the reality is that Fairfax's equity portfolio is stuffed with companies with a market cap of less than $1 billion as well as investments in troubled banks in both Ireland and Greece. Scoff if you want, but I'm not about to second-guess Watsa. If he thinks Greek banks are a good value, chances are he's right.

**What's good for the goose…**

Watsa also eats his own cooking, so to speak. He's stated that more than 99% of his personal wealth is tied up in Fairfax shares, through a special class of share that gives him control of the company in exchange for a stake of approximately 10% of Fairfax's outstanding shares. He also owns a quite a few B shares, which is the publicly traded series. Plus, he pays himself a salary of $600,000 per year, quite modest for a man in charge of a company with a $13.8 billion market cap.

When it comes to Fairfax, here's the kicker. This year, Buffett turns 85, while Watsa will only be 65. The chances of Watsa lasting another decade are far higher than Buffett's. There's still plenty of time to hitch your wagon to this horse.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:FFH (Fairfax Financial Holdings Limited)

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