



Feeling a Little Bearish? Buy Fairfax Financial Holdings Ltd.

Description

At some point, the markets are going to take a turn for the worse. Oil stocks have already experienced this, with many of them dropping 50%, if not more. Because our economy is so cyclical, these market corrections can be rather predictable. Due in large part to the fact that interest rates have remained so low around the world, the only way for investors to make money has been to go into equities. When those interest rates start to rise, people will move to bonds, causing a drop in equity prices.

Then there's China. The CEO of **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)) sees China as a potential bust for the economy. According to Prem Watsa, China's real estate market has peaked. Because of this, he has his entire portfolio hedged so that if there is a rapid sell off of stocks due to a big event in China, he can profit immensely.

Now, here's the thing: Normally, I don't listen to investors when they call for the end of equities—even a broken clock is right twice a day—but when it comes to Mr. Watsa, I'm inclined to listen. He accurately predicted the U.S. housing crash and made billions in the process.

The Warren Buffett of Canada

If you are looking for the Canadian equivalent of Warren Buffett, Prem Watsa is it. Fairfax Financial is set up very similarly to **Berkshire Hathaway**. Both Watsa and Buffet are able to generate significant cash flow to invest in new businesses by using the insurance business. They take the money that comes in and invest it in bigger and better businesses. Those paying their insurance premiums fund the operations of Berkshire and Fairfax.

But Watsa likes to invest more in equities, while Buffett likes to buy giant companies. And it's Watsa's interest in stocks that makes him one of the best stock pickers in the business and a worthwhile investment for you.

If I asked you what five small-cap stocks you should invest in, you would probably scratch your head. Or worse, you might rattle off a few names you read on a chat board. Small-caps are hard to invest in. They're not big-time, dividend paying companies. However, Watsa, knows what to look for in a small-cap. His portfolio has plenty of them.

What that means is you're getting your hands on a diverse portfolio of small-cap stocks that have already been vetted by Mr. Prem Watsa.

It's time to buy

Because of its bearish outlook on equities and the diversified small-cap portfolio, I think Fairfax Financial is absolutely a buy. If nothing else, it would be a hedge in case the markets do stumble like Watsa predicts.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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Date

2025/08/25

Date Created

2015/02/24

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