



What Does a Grexit Mean for Canadian Investors?

Description

Over the weekend, the game of chicken between Greece and the Eurozone appeared to take a turn for the worse.

To sum it up, here's what's going on. On Tuesday, Greece is due to make a €1.6 billion loan payment to the International Monetary Fund as its current bailout agreement expires. It does not have the cash. Greek leaders don't want to agree to the Eurozone's new bailout terms without first asking the electorate, so the country has a referendum scheduled for July 5th. To avoid a run on the banks, Greek banks will close until July 7th, with strict limits placed on ATM withdrawals and money wired out of the country.

To observers, this looks like a terrible plan. The referendum could cost up to €100 million, a lot of money for a country that's effectively bankrupt. The Greek government is notoriously corrupt and disorganized, which places additional challenges. The average Greek voter also doesn't seem too keen on agreeing to the newest set of austerity measures.

This has spooked markets around the world. North American stocks are set to head down more than 1% on the news, which puts them on pace to have their worst performance since the Ebola crisis was at its peak back in 2014.

There's the potential that this whole Greek situation sends stocks reeling. How should investors deal with this crisis?

Do nothing

I have a novel idea.

Instead of investors worrying about how this latest crisis will affect the prices of their stocks, they should instead shrug, and move on to something else.

There's almost nothing that can happen in Greece that will affect the long-term profitability of the average Canadian company. Each of the largest TSX Composite companies will go on doing what they

do. Nobody is going to drop a **Rogers Communications's** cell phone plan or cable package because of something that happened in Greece.

There are several stocks that are on my radar that I'd like to buy if they get a little cheaper. If an unrelated crisis knocks these stocks down to my buy price, I'm not going to say no.

Buy Fairfax Financial

There's one Canadian company with a big investment in Greece, and that's **Fairfax Financial Holdings Ltd** ([TSX:FFH](#)).

In what was viewed as a shrewd contrarian move at the time, Fairfax CEO Prem Watsa invested approximately €400 million in Eurobank Ergasias, one of Greece's largest banks. Fairfax's stake is approximately 14% of the company's equity.

Fairfax also owns large stakes in Grivalia Properties and Mytilineos, which are large players in the real estate and industrial sectors, respectively. Watsa has consistently been bullish on Greece, believing the country and the Eurozone can come up with some sort of deal.

This news will likely send Fairfax shares lower, giving investors an opportunity to buy a long-term winner at temporarily depressed levels. Even if Watsa's Greek investments don't work out, Watsa can still brag about growing Fairfax's book value by more than 20% annually over three decades. That's an impressive record, even with the odd misstep.

Buy Fortress Paper

There's one more company that looks to benefit from a Grexit, and that's relatively unknown pulp and paper producer **Fortress Paper Ltd.** (TSX:FTP).

Essentially, investors in the company are betting on one thing. The company seems like the natural choice to get the contract to print a new Greek currency through a Swiss subsidiary. This speculation has sent shares soaring in the last few months, rising more than 47%. Look for that to continue in the upcoming days.

But there's all sorts of other issues with the company. It lost more than \$4 per share in 2014, and that was after losing \$7.41 per share in 2013. The issue is with its main pulp mill in Quebec, which is a consistent money loser. Without a big contract, the company isn't on great financial footing. Consider this one at your own risk.

Canadian investors shouldn't sweat a Grexit. They should just treat it like any other misguided crisis and look at buying solid companies that are on sale.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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