



3 Reasons to Load up on Fairfax Financial Holdings Ltd.

Description

Over the last 30 years, there's been a really easy way to get rich. You gave your money to Prem Watsa and left him alone to do his thing.

Starting in 1985, when current management took over, returns have simply been remarkable. Watsa has grown **Fairfax Financial Holdings Ltd's** ([TSX:FEH](#)) book value by more than 20% per year. To accomplish that consistently over 30 years just goes to show how remarkable Watsa's abilities really are.

It's impossible to summarize Watsa's edge in just a paragraph or two, but I'll try. Essentially, Fairfax's insurance subsidiaries generate plenty of float, which is premium income that flows in that won't have to be paid back until some point in the future. Most insurance companies invest this float into ultra-safe assets like government bonds.

Watsa does too, but supplements that investment with a value approach, investing in undervalued companies. Sure, there are some laggards in there, but as a whole, the portfolio does well. This outperformance combined with free leverage from the float leads to terrific success.

But this isn't the only reason why investors should own this company. Here are three more reasons why you should hitch your investing cart to Watsa's horses.

Macro master

Most investors are terrible when it comes to predicting macro trends.

Prem Watsa, on the other hand, has a terrific record. He predicted the tech bubble would end badly in the late-1990s, and he made a fortune for his shareholders by actively betting on the subprime mortgage collapse in the U.S.

These days, Watsa has made a couple of other interesting bets. Firstly, he thinks China is massively overvalued, and is on record saying a real estate collapse there could send the whole financial system reeling. And secondly, he has active bets on deflation rearing its head in Canada, the U.S., and in

Europe. If the Consumer Price Index falls to a certain level in any of those countries, Watsa's bets will pay off.

Where else can a regular investor get exposure to deflation-linked derivatives?

A reasonable valuation

Not only do investors get access to Watsa's past success, but they also get it at a very reasonable valuation.

Currently, Fairfax shares are trading at just 1.12 times book value, and at a trailing price-to-earnings ratio of just 10.4. Not only is that incredibly cheap when compared to the rest of the market, but it's even cheap compared to other insurance companies. **Manulife** trades at a price-to-earnings ratio of 13.2 and a price-to-book ratio of 1.15, while **Sunlife** trades at a P/E ratio of 14.2 and a P/B ratio of 1.28.

The only area where Fairfax is a little weak compared to its peers is in the dividend. Watsa seems happy to maintain the dividend at \$10 per share annually, good enough for a 1.9% yield. That's half as much yield as Sunlife offers, and 33% less than Manulife investors get.

Still, that's not such a bad thing. If Fairfax paid more dividends, that would be less money kicking around for Watsa to invest.

Exposure to Greece

Many average investors are attracted to situations like the one in Greece, looking to load up on cheap companies while the whole country is depressed.

While that's great thinking on the surface, it's not that easy for most people. The average person just can't analyze something like a bank and figure out whether it's still solvent or not. It's beyond them.

But Fairfax has some of the smartest analysts in the business going through the books, as well as access to management. This means it is able to make far more intelligent decisions than any retail investor when it comes to getting exposure to Greece.

Fairfax has made two large investments in the country, one which is in a large bank, while the other is in one of the largest property owners. I'd give those investments a much better shot at working out than a blind speculation on the future of **National Bank of Greece**.

Fairfax is a great investment, and Prem Watsa is one of the best in the business. It's practically a no-brainer to own it, especially at this reasonable valuation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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