

# Steal These 3 Investing Tips From Canada's Warren Buffett

## Description

Over the years, it's been good to invest with Prem Watsa, the man who is sometimes known as "Canada's Warren Buffett."

Since 1985 when Watsa first took over **Fairfax Financial Holdings Ltd.**, he has managed to grow the company's book value by approximately 20% annually. That's a pretty terrific record over the years.

To really gauge how well Watsa has done, let's look at a \$10,000 investment that compounds 20% annually over three decades. Excluding taxes, trading fees, or any other expenses, that original \$10,000 would have grown to more than \$2.3 million.

How does Watsa do it? Condensing it down to just a few big factors is doing a disservice to Watsa's unbelievable record, but much of the man's success can be explained because of three big things he has going for him. Let's take a closer look.

## Free leverage

There's a reason why many of the world's most successful investors are those who also run insurance companies.

Essentially, it goes like this. An insurance company collects a steady stream of capital in the form of premiums. Most of those premiums will eventually be paid back out to policyholders, but in the meantime, the insurance company gets to invest the money. In insurance company lingo this is called the float.

For a good investor like Watsa, this form of free leverage is a huge advantage. It gives him access to much more capital than he'd have otherwise. And as long as the underlying insurance operations are performing well, he'll continue to have a steady source of fresh capital.

How can the average investor get their own form of free leverage? Unfortunately, most of us don't have thousands of insurance customers giving us their premiums.

But we do have other ways we can get close to free leverage. We can take our free RRSP employer match at work, for instance. And tax-deferred accounts like TFSAs allow regular investors to keep more cash in their pockets than taxable accounts. And finally, dividends give an investor a nice steady cash flow that can be put to work in other investments.

## Seek value

Watsa is a value investor, which means he's essentially trying to buy \$1 in assets for \$0.50. It's proven to be a pretty successful strategy in the past.

Take his investment in **BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY), which is worth some \$500 million

as I write this. Watsa was attracted to BlackBerry's large cash hoard, the goodwill surrounding the brand name, the value of the company's patents and other intellectual assets, and the company's foray into a new growth market: software for the new generation of smart devices that are springing up everywhere.

Plus, BlackBerry's CEO John Chen has experience turning around distressed technology companies; he led another tech company called Sybase from close to bankruptcy to eventually being acquired. Put all that together, and it's pretty easy to see why Watsa thinks BlackBerry is worth much more than the current price of \$10 per share.

## Patience

One thing every value investor must know is how to be patient. It comes with the territory.

It often takes years for one of Watsa's investments to work out. Take Fairfax's investment in **Torstar Corporation** ([TSX:TS.B](#)), which has been on the books since 2006. Watsa has averaged down at least twice on the beleaguered newspaper, buying more shares at much higher levels.

While it looks like this particular investment might end up being a loser, there are reasons to get excited about Torstar. It recently announced an investment of close to \$200 million in VerticalScope, a Toronto-based owner of more than 600 different websites. Torstar already has a significant investment in digital technology via its own website, and owns stakes in sites like Workopolis, Toronto.com, and others. At least it's trying to diversify into media businesses with better growth.

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