



## Don't Overthink It. Just Buy Fairfax Financial Holdings Ltd.

### Description

Overcomplicating the exercise of investing is something that can trip up anybody, especially those folks who are pretty good at it.

There are several reasons for this. At its heart, active investing is somewhat arrogant. You don't try to beat the market unless you're fairly confident you can do so. The very act of choosing the best stocks is like saying you're smarter than the market.

Investors also want to impress their peers. If your thesis is "this is a great company trading at a reasonable valuation," you're not likely to impress many people who spend their free time analyzing balance sheets and annual reports. They want more than that.

These investors are constantly looking for an edge, something they know that the rest of the market doesn't. It's either the best or worst treasure hunt ever, depending on your perspective.

I'm not sure most investors should bother with all that stuff. We have better things to do and, for many of us, it won't lead to any outperformance.

Instead, investors should follow a simple path. Identify companies with a history of outperformance and buy them when their shares trade at a fair valuation. It's that easy.

**Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)) is one such company. Here's why you should load up on shares of it for the next 10, 20, or even 50 years.

**Prem Watsa**

In 1985 Prem Watsa took over struggling trucking insurer Markel Service of Canada. Watsa had been successfully investing for years before, following the teachings of Benjamin Graham and Warren Buffett. It's no coincidence Watsa targeted an insurance company as his vehicle of choice; he had nearly a decade of experience in the industry by that point, and he knew from studying Buffett's **Berkshire Hathaway** just how big of an advantage having an insurance float was. Essentially, it's an interest-free loan.

The rest, as they say, is history. Watsa's rise to billionaire status hasn't always been smooth—Fairfax has made a few dud acquisitions over the years and was the target of a short-selling attack by a number of hedge funds—but you can't argue with the results. Over the 30 years since taking over the company, Watsa has averaged a 20% return on book value annually.

Watsa has accomplished this in two ways. He's an accomplished value investor with a knack for buying unloved and beaten-up stocks that end up outperforming the market. He's also had success emulating Buffett in another way: by buying great businesses completely and taking them private.

At its heart, Fairfax is an insurance company. Over the years, the company has expanded into all sorts of different insurance markets, primarily reinsurance, the act of insuring risks for the insurance companies themselves. Fairfax is also a major property and casualty insurer with operations around the world.

Fairfax is a good insurer. It regularly runs a profit on its underwriting alone, meaning its investing gains are pure gravy.

### **The bonus**

Watsa isn't just a great investor. He also has an enviable record of predicting macro trends as well.

His biggest win was the U.S. subprime mortgage crisis. While the rest of the world panicked, Fairfax was booking profits of \$1.5 billion in 2008 as bets against the most toxic of mortgages paid off in a big way.

These days, Fairfax has a new macro event it's betting on—deflation. If Canada, the U.S., the U.K., or the Eurozone experience any significant deflation, the company is set to earn a maximum of \$112 billion through the use of derivatives. No, that's not a typo.

Needless to say, if that bet works out, it would be a huge win for a company with approximately US\$10 billion in book value. You might think deflation is unlikely, especially with the U.S. economy seemingly doing well. But Watsa isn't usually wrong about these kinds of bets.

An investment in Fairfax is an investment in Watsa. It's that simple. He's had all sorts of success over the last 30 years. Can he replicate it over the next 30? Only time will tell, but if I'm going to bet on anyone, it would be him.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

## **TICKERS GLOBAL**

1. TSX:FFH (Fairfax Financial Holdings Limited)

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