3 Top Reasons to Own Fairfax Financial Holdings Ltd.

Description

Fairfax Financial Holdings Ltd. (TSX:FFH) aims to achieve high returns on invested capital and to create long-term shareholder value. In fact, it has been delivering excellent returns for shareholders since 1985.

Outperforms the market

For the 31st year Prem Watsa is leading Fairfax as the CEO and chairman of the board of directors. From 1985 to 2015 Fairfax's book value per share compounded at a rate of 20.4% per year. This growth is reflected in its share price, which compounded at a rate of 19.4% per year in that period.

From 2007 to 2015, despite the impact of the financial crisis, Fairfax managed to compound its book value per share and price per share by 7.3% and 10.9% per year, respectively.

Simply put, Fairfax tends to outperform the market across different periods over the long term.

Advantage of insurance premiums

Fairfax is a holding company that owns subsidiaries, which are primarily engaged in property and casualty insurance and reinsurance and the management of the associated investments.

Fairfax's subsidiaries include Northbridge Financial, which is based in Canada, Zenith National, which is based in California, and OdysseyRe, which is based in Connecticut. The combined underwriting profit was $705 million in 2015.

In the last two months Fairfax has agreed to acquire a South African insurer and an 80% interest in an Indonesian insurer to extend its global reach.

One of Fairfax's big advantages is that it can invest the insurance premiums paid by policyholders for a higher return before that money is claimed.

Diversified investment portfolio

Fairfax has been investing in the restaurant business for about five years. It has become the third-largest restaurant group in Canada behind Tim Hortons and **McDonald's**. Fairfax has interests in **Cara** , the Keg, and McEwan.

At the end of June Fairfax had 95.1% of the voting rights and 28.1% of the equity interest in Fairfax India. Through Fairfax India, Fairfax can invest in India for growth, including investing in public and private equities and debt instruments.

At the end of the second quarter Fairfax's diversified investment portfolio is comprised of cash and cash equivalents (11.5% of the portfolio), short-term investments (10.2%), bonds (62%), preferred stocks (less than 1%), common stocks (15%), and derivatives.

Investors should note Fairfax's large bond portfolio consists of Canadian government and provincial bonds (3.4% of its bond portfolio), U.S. treasury bonds (38.4%), U.S. state and municipality bonds (33.6%), other government bonds (10.5%), and corporate and other bonds (14.2%).

Conclusion

Fairfax has a 30-year track record of outperforming the market. So, Fairfax is a great addition to a diversified portfolio that targets total returns, especially for equity-heavy portfolios as Fairfax has a large exposure to bonds, which benefit from higher interest rates. On top of that, at $700 per share, Fairfax yields 2.1% and trades at 1.31 times its book value, which is inexpensive.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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