



## Is Now the Time to Buy the Smaller Version of Fairfax Financial Holdings Ltd.?

### Description

There aren't many Canadian stocks as successful as Prem Watsa's **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)). You'll get no argument from me or any other person familiar with equity investing. Watsa's deft management of Fairfax's assets over the past 31 years has put him on a pedestal that few others in this country can claim as their own.

Now he's building another fortress of strength, this time in India. Publicly traded for 18 months, Watsa is intending to deliver the same value for **Fairfax India Holdings Corp.** ([TSX:FIH.U](#)) shareholders as he has for Fairfax Financial, its much larger parent company.

However, before one makes a direct investment in the Indian investment holding company, it's important to answer several questions before jumping head first into the small-cap version of Fairfax Financial.

### Why own the small-cap when the large-cap owns a majority of Fairfax India's stock?

That's an excellent question. As Fool contributor Kay Ng pointed out in her [article](#) about Fairfax Financial, it owns 95.1% of Fairfax India's voting rights and 28.1% of its equity. Putting your money in the small-cap and not Fairfax Financial itself means you miss out on all the great things happening at the parent company.

### Is India really a good place to invest?

There's no denying emerging markets have taken it on the chin in recent years. BlackRock's largest Canadian-listed ETF for emerging markets in terms of assets is the **iShares MSCI Emerging Markets Index ETF** (TSX:XEM). It's generated a five-year annualized total return of 3.2% as of August 3, 250 basis points fewer than the S&P/TSX Composite Index and almost 11 percentage points worse than the S&P 500.

Closer to the subject at hand, the **iShares BRIC ETF** (TSX:CBQ) has done even worse; its total return has been -6.5% on an annualized basis over the past five years. Most importantly, however, is the fact the **iShares India Index ETF** ([TSX:XID](#)) has managed an 8.2% annualized total return over the same

period, 250 basis points better than the TSX Composite.

India is, in many ways, the best of the BRICS.

### **Doesn't Fairfax India lack a track record?**

There's no denying that Fairfax India is in the early stages of its history, having only been founded in 2014. It's likely that investors asked the same questions of Watsa early on in Fairfax Financial's days as a public company. Only now, Watsa's got years of experience under his belt and an intimate knowledge and understanding of India, the place where he was born.

Local knowledge when you're investing halfway around the world is a huge advantage.

### **Hasn't Fairfax India stock underperformed over the past 18 months?**

If you judge its performance simply by its stock price, then it absolutely hasn't done well. It's sitting right around \$10, its IPO price. Over the past 52 weeks, Fairfax Financial's one-year total return is 14.1%; Fairfax India, meanwhile, is down 9.8% in the same period.

However, according to billionaire investor Stephen Jarislowsky, it's not unusual for IPOs to fall below their initial pricing within 12-24 months.

### **Aren't there better small-cap investments available?**

That's entirely possible. But none have the backing of one of this country's greatest investors.

### **Is now the time to buy Fairfax India?**

If you already own Fairfax, the parent, I would think you would also want to own Fairfax India simply because you get 100% of the benefit of its growth in India compared to just 28% holding through Fairfax Financial.

If you don't own Fairfax, the parent, I would absolutely buy Fairfax India if you're looking for growth because at \$10 you're getting its stock at a reasonable price—17% lower than where it was trading at the beginning of May.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:FFH (Fairfax Financial Holdings Limited)

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