



Canada's Warren Buffett Is Still Beating the Market: Get Ready for More Gains

Description

Since 1985 **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B), headed by famed investor Warren Buffett, has been able to grow its book value by about 20% per year.

Few investors have been able to match this market-trouncing long-term record. Berkshire's remarkable history has caused many investors to consider Warren Buffett one of the best investors of all time.

There is, however, one Canadian who can match up with Buffett fairly evenly: Prem Watsa, who runs **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)).

Watsa is a man who has largely managed to stay out of the public eye. But other billionaires have certainly noticed his prowess.

Billionaire Wilbur Ross once said that Watsa is "excellent on macroeconomic analysis and translating that into an investment thesis. He adds value to a business by devising sometimes out-of-the-box strategies and tactics. Third, he is a very disciplined buyer and seller."

How is Fairfax faring?

From the outset, Fairfax copied Berkshire's template of success: investing the proceeds from its insurance holdings (the float) into various opportunities, typically public equities.

As of last quarter, it had an investment portfolio of about \$28 billion. Some of its largest positions include **BlackBerry Ltd.**, **Resolute Forest Products Inc.**, **Lexmark International Inc.**, **International Business Machines Corp.**, and **National-Oilwell Varco, Inc.**

Fairfax has an extensive history of being very conservative with its bets, employing the use of various hedges to lessen its exposure to macroeconomic events. During the last financial crisis (2007-2008), the company was betting on a major stock market and a U.S. residential mortgage-backed-securities breakdown.

When things started to collapse, Fairfax made a huge profit of \$4.7 billion. While the market was

tanking, Fairfax stock actually increased by over 90% from 2007 to 2010. How is the portfolio positioned today?

Fairfax currently has a very negative view on equities. As of its last filing, Watsa has the company's investment portfolio *completely* hedged, meaning that it has just as many shorts as longs.

If you're worried about frothiness in the market, Prem Watsa has your back.

An unusually large 18.5% of his portfolio is also in cash and short-term positions. We haven't even mentioned a huge position in CPI-linked derivative contracts (\$112.4 billion notional amount, \$227.3 million fair value, 6.1 years' average maturity) designed to protect against global deflation.

It looks like Watsa is looking to lock in some major gains. His portfolio hasn't just risen off the back of a rising market though. Over the previous one-, three-, five-, and 10-year periods, Fairfax stock has crushed the market.

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This year, despite his ultra-conservatism, Fairfax stock is up 35% versus a gain of just 7% for the TSX. Clearly, Prem Watsa is still dominating the market year after year, even if most investors haven't heard of him.

CATEGORY

1. Investing

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1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. TSX:FFH (Fairfax Financial Holdings Limited)

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