



## 5 Reasons to Consider Fairfax Financial Holdings Ltd.

### Description

**Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)) has the goal to achieve high returns on invested capital. In so doing, it has created shareholder value over the long term. Its history supports that. Since 1985 it has been delivering double-digit returns.

Fairfax Financial logo

### Beating the market over the long term

Prem Watsa has been leading Fairfax as the CEO and chairman of the board of directors for three decades. From 1985 to 2015, Fairfax's book value per share compounded at a rate of 20.4% per year. This translated to share price appreciation, which equated to annualized returns of 19.4% in that period!

Simply put, you could have become a multi-millionaire by investing in Fairfax years ago. A \$10,000 investment in the company 30 years ago would have turned into more than \$2,000,000!

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. A \$10,000 investment in 2007 would have more than doubled to nearly \$23,000 in that period.

So, Fairfax tends to beat the market across different periods. At \$687 per share, it also compensates shareholders with a 2.1% dividend yield.

### Diversified portfolio

Over the years, Fairfax has built a nice diversified portfolio. One achievement is that it has become the third-largest restaurant group in Canada.

Specifically, Fairfax has interests in **Cara** (which has an umbrella of brands such as Harvey's, Milestones, and Swiss Chalet), the Keg, and McEwan with more than 1,100 restaurants and \$2.4 billion in system sales.

However, its portfolio is much more than that. At the end of Q2 in June, Fairfax's investment portfolio was worth a little over US\$28.2 billion.

It had about 18% in cash and short-term investments, roughly 54% in bonds (of which 38% were U.S. treasury bonds and 34% were U.S. state or municipality bonds, totaling 72% of its bond portfolio), and about 14% in stocks.

Fairfax has also hedged 115% of its equity and equity-related holdings against a potential broad and systemic decline in equity markets. The hedge would protect and benefit shareholders if the market tanked.

### **Deflationary bet**

Watsa has hedged against a deflationary scenario by buying derivatives, which are linked to consumer price indexes in the U.S., the European Union, the United Kingdom, and France and has an average life of about six years. In the case of a deflationary scenario in the U.S. or Europe, Fairfax would get a huge payout of billions of dollars!

### **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 (but are not limited to) Northbridge Financial, which is based in Canada, Zenith National, which is based in California, and OdysseyRe, which is based in Connecticut. Fairfax's combined underwriting profit was US\$705 million in 2015.

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

### **Shares starting to look attractive again**

Since declining over 10% from its September high of \$768 per share, Fairfax is starting to look attractive again. At \$687 per share, the company trades at a price-to-book of 1.28.

### **Conclusion**

Fairfax can add protection to your portfolio with its diversified portfolio and hedges against market declines and deflationary scenarios in multiple developed markets. It also has a track record of long-term double-digit returns, and it offers a 2.1% dividend yield.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:FFH (Fairfax Financial Holdings Limited)

**Category**

1. Dividend Stocks
2. Investing

**Date**

2025/08/25

**Date Created**

2016/11/01

**Author**

kayng

default watermark

default watermark