



Protect Your Portfolio From a Trump Presidency With This Stock

Description

There's no question that the upcoming U.S. election is causing investors to panic and is a major reason why the S&P 500 pulled back for six straight trading days. Hillary Clinton held a fair lead in the polls, but as Donald Trump starts closing the gap, we might have to deal with a Trump win.

As shocking as this might sound, the stock market could respond quite negatively to a Trump presidency, as investors have more unknown variables with him than with Clinton. What will happen to the TSX if Trump wins? We could experience a correction of up to 10% as opposed to just a 3% relief rally if Clinton wins, according to Eric Zitzewitz, an economics professor at Dartmouth College.

It's no mystery that the risk of this election is not worth the reward, and if you haven't hedged yourself in the case of a Trump win, then it's in your best interest to do so before the conclusion of the U.S. election next week.

Where can a Canadian investor hide in such a scenario?

As an investor looking for protection, you're probably thinking that you should jump into bonds or safe high-yielding stocks such as the telecoms, banks, or utilities. Actually, while these should be a part of every diversified portfolio, the stock that would be a great hedge against a Trump presidency is **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)).

Fairfax has an excellent track record of outperforming during times of market turmoil. The stock managed to rally during the great recession thanks to Prem Watsa's excellent hedging strategy. Sure, Prem Watsa sounds like a doomsday investor, but his strategy of hedging against a market collapse is actually beneficial to investors who no longer believe in the market or are fearful because all other investors have been greedy.

Treat Fairfax like a bomb shelter against a stock market correction. If you own shares of Fairfax once Trump wins the election, that estimated 10% correction will not apply to these shares; shares could actually rally on the bad news thanks to well-strategized hedges.

In addition to being a safe haven for investors, Prem Watsa has also managed to find deep value in

insurance and non-insurance businesses. The man is known as the Warren Buffett of Canada for a reason. He follows the same principles of a deep-value investor, but the only difference is that Prem Watsa is rooting for a market correction, as his hedges are all in place. He knows that a crash is inevitable, but nobody knows when or of what magnitude.

What about value?

Fairfax stock has been quite a roller-coaster ride this year. The stock currently trades at a very reasonable 17.7 P/E, with a 1.2 P/B, both of which are in line with their five-year historical average values.

Is the stock cheap? I wouldn't say it's cheap, but it's definitely fairly valued at current levels. But since there could be a potential correction around the corner, it would probably be in your best interest to pick up shares as protection in case Trump becomes president next week.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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