



Is This the #1 Stock in Canada?

Description

Canada is filled with a number of great stocks. If you're looking for quality, Canada delivers.

Our government has done a great job creating an atmosphere needed for business to flourish. We have stable property rights. Our government encourages foreign investment—at least most of the time. Politicians and top bureaucrats are honest. Sure, certain government officials sometimes get involved in ethics scandals, but those tend to be pretty minor in nature.

Canada also has a world-class education system and benefits from friendly competition from its southern neighbor. U.S. corporations are the class of the world. Some of that has clearly rubbed off on Canadian companies.

Canada has a number of great companies, but only one can be the best stock in Canada. Here's my choice.

Fairfax Financial

As far as I'm concerned, a company isn't in consideration for being Canada's best stock unless it has a few major things going for it.

First, it needs to have a demonstrated history of outperformance. It also has to have a great manager in charge, preferably one that owns a lot of shares. It needs to have potential for growth going forward. And because I'm a value investor, I don't want to pay too much for the company.

That narrows the list down considerably. And for me, it pushes one name to the top: **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)).

Let's start with the company's outstanding performance over the last three decades. According to CEO Prem Watsa's latest shareholder letter—which tracks results until the end of 2015—the company has grown book value per share by 20.4% per year and the share price by 19.4% annually since current management took over in 1985.

Those results are impressive over a few years, but over a few decades? It puts Fairfax in truly rare company.

The driving force behind this performance has been Watsa. He copied Warren Buffett's model at **Berkshire Hathaway Inc.**, first buying up insurance operations. He then used the float generated—which comes from premiums paid by policyholders—to invest in a number of undervalued stocks.

Over the years, Fairfax has made a number of large insurance acquisitions. Odyssey Re was first bought in 1996. It bought Crum and Forster in 1999. It acquired Northbridge in 2009. And it acquired Zenith in 2010. In 2015 these companies brought in US\$7.5 billion in insurance premiums.

Fairfax has gotten better at insurance underwriting over the years too. It regularly posted combined ratios of over 100% during the 1990s and early 2000s. In 2015 it posted a consolidated combined ratio of 89.9%, meaning it made US\$705 million in insurance underwriting profits alone.

The next 30 years

The beauty about Fairfax is the company can continue this growth rate. Berkshire Hathaway showed us all it's possible.

There's still plenty of potential to grow the insurance business. Insurance is a massive business around the world, and Fairfax has proven it's a good operator. And, like Berkshire, Fairfax has evolved from buying shares of cheap companies to entering strategic partnerships with higher-quality businesses. It's also been known to acquire entire companies as well.

Thanks to a recent sell-off in shares, Fairfax is truly cheap for the first time in a while. When converted back to local currency, Fairfax has a book value of \$605.70 per share. Shares currently trade hands at \$625, give or take a few cents. That puts shares at just 1.03 times book value.

Or to put it another way, investors who get in today are paying fair price for the company's assets while getting the expertise of Prem Watsa—who, by the way, owns nearly two million Fairfax shares—for nothing. That's a fantastic deal.

The bottom line

There's an awful lot to like about Fairfax. It's run by a terrific management team with skin in the game. It has a history of fantastic results. There's still plenty of growth potential. And, perhaps most importantly, anyone who picks up shares today is getting a great valuation.

It doesn't get much better than that, which is why I think Canada's best stock is Fairfax Financial Holdings.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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