



1 of Canada's Best Investors Just Got Bullish

Description

Prem Watsa needs no introduction to serious investors.

Watsa, the CEO and chairman of **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)), first took over management of the company in September 1985. At the time, Fairfax was a small specialty insurer doing just US\$12.2 million in revenue with a book value of US\$1.52 per share. Total assets were US\$30.4 million.

Now, 30 years later, Watsa and his team have grown the company into a powerhouse. Book value has grown to US\$403.01 per share with revenue of US\$9.5 billion and total assets of \$41.5 billion.

That translates into growing book value at a clip of 20.4% per year — a truly remarkable feat.

How did Watsa do it? It's simple, really. He copied the model first proven by Warren Buffett, using insurance premiums as a form of free leverage — commonly known in the sector as float — to invest in undervalued securities.

Unlike Buffett, Watsa also used derivatives to make big macro bets, including pocketing a cool \$1.5 billion in earnings in 2008 that came from betting against trashy U.S. subprime mortgages. Virtually every other financial company in the world posted huge losses that year.

Needless to say, when Watsa does something, it makes sense to listen. And on Thursday, when Fairfax released its results for 2016, Watsa announced a huge change in policy.

Investors, take notice.

The switch

After making a lot of money by buying undervalued stocks in 2009 and 2010, Watsa has been consistently bearish for years now. He constantly warned investors that stocks were too pricey.

Watsa put his money where his mouth was too. Fairfax's equity portfolio was fully hedged for years,

which meant that if stocks did suffer another 2009-style meltdown, Fairfax shareholders would walk away from the carnage unscathed. Watsa also used derivative contracts to make a massive bet that deflation would hit North America and western Europe in a big way.

Watsa has suddenly changed his tune, however, announcing that Fairfax has removed all of its equity hedges. According to Watsa, the thought process was “fundamental changes in the U.S. in the fourth quarter that may bolster economic growth and business development in the future.” In other words, the election of Donald Trump has finally made Watsa bullish.

Watsa went into more detail during Friday morning’s conference call, telling analysts “we do not expect the markets in general to do very well, but individual companies might do well.” In other words, Watsa thinks individual stock picking is the right strategy, not buying an index.

How should you play this?

I continue to advocate caution for individual investors.

There’s nothing wrong with [taking a little money off the table](#) at this point in the market cycle. That cash can be used to pay down debt or invest in something a little more defensive.

Many investors have turned bullish on this news, emboldened by Watsa’s sudden change of heart. After all, the man has a good record of getting big macro calls right. Why wouldn’t he be right about this?

While I’m far more confident about believing Watsa over just about anybody, I’d caution bullish investors that Watsa was on record as being bearish as recently as November 3, telling shareholders he was “concerned about the financial markets and the economic outlook in this global deflationary environment.” Many pundits are also speculating Watsa may be throwing in the hat on being bearish at precisely the wrong time.

The bottom line

I suspect Watsa would tell individual investors something like this: stocks are expensive, but there are pockets of value out there. As long as an investor insists on buying a good company at a reasonable price, they’ll do fine, no matter what global stock markets do.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/07/07

Date Created

2017/02/17

Author

nelsonpsmith

default watermark

default watermark