

3 Ways to Play a Reeling Fairfax Financial Holdings Ltd.

Description

Fairfax Financial Holdings Ltd. ([TSX:FFH](#)) is in a major holding pattern that began in earnest last October. Hedging bets against deflation and a broad decline in equity markets, investors turned against Prem Watsa last fall and haven't returned.

Fairfax's stock is reeling.

Down 4% year to date and 8% over the past 52 weeks, Fairfax hasn't seen annual returns in the double digits since 2014.

Motley Fool contributor Joey Frenette recently [questioned](#) CEO Prem Watsa's change of heart concerning the direction of the equity markets. Watsa was a major bear until Trump got elected; now, with Trump in the White House, Watsa sees the U.S. economy improving.

Unfortunately, at least when it comes to Watsa's bet on the equity markets continuing to climb, Trump's future appears to be a murky one, and that, quite naturally, has Fairfax shareholders worried.

Long term, Prem Watsa is going to be okay. He continues to build Fairfax's non-insurance operations brick by brick; at some point in the future, he'll have built an entirely new house.

In the near term, here are three ways to play Fairfax's reeling stock.

First option

If you think there's a correction in its future, you don't want to buy its stock at current prices if you can buy it in three to six months for \$500 or less.

However, if you also believe that Fairfax is the Canadian version of **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) and that Prem Watsa is a good allocator of capital, you've got to come up with a strategy to own its stock without getting punished in the near term.

Well, you could sell a put option out of the money, picking up the stock at a price lower than where it currently trades, or you could buy the stock and buy a put option out of the money, which would protect your share price on the downside.

Unfortunately, options aren't available in Fairfax stock.

So, what you might do is buy some Class B shares of Berkshire Hathaway until Fairfax stock falls to where you believe it's bottomed out or the risks associated with Fairfax's hedged bets are lower or eliminated.

Second option

The past year has been one of growth for **Fairfax India Holdings Corp.** ([TSX:FIH.U](#)), Prem Watsa's bet on India.

Last August, I [recommended](#) Foolish readers seriously consider owning its stock, which I felt was undervalued trading at its January 2015 IPO price of \$10. Today, it's trading around \$14.25 — 43% higher in less than a year.

Much has changed at Fairfax India since last summer, including the selling of 42.6 million shares at \$11.75 in a January private placement to the Ontario Municipal Employees Retirement System, and Fairfax raising \$500 million, part of which was used to pay down all \$225 million of its long-term debt.

Fairfax India's two publicly traded investments have appreciated nicely since acquiring significant stakes in both IIFL Holdings in December 2015 and Fairchem Speciality Limited in February 2016. Equally important, its book value per share increased by 26% in the first three months of the year to \$12.19.

Fairfax India continues to mature as a company. Even after 43% appreciation, it's a worthwhile investment in the emerging markets.

Third option

The final option is **Fairfax Africa Holdings Corp.** ([TSX:FAH.U](#)), which went public in February 2017 at \$10 per share.

Currently, most of the company's assets are in short-term investments such as cash, U.S. Treasury bills, and Government of South Africa bonds.

In February, it made its first and only investment 42% of AFGRI, a South African agricultural services company. The fair value of its investment at the end of March was \$77 million.

I expect to see more goods news out of Africa in the coming months.

Bottom line

With Fairfax, Fairfax India, and Fairfax Africa, you get investments that are mild, medium, and hot.

I have no problem recommending all three stocks. However, keep some cash handy just in case FFH takes a tumble into the \$500s. Long term, it will turn out to be an excellent decision.

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