



Should You Invest Alongside Canada's Warren Buffett?

Description

Fairfax Financial Holdings Ltd. ([TSX:FFH](#)) has been a great stock for doomsday investors to own over the past decade. The company performed well during the Great Recession but flat-lined in the years that followed thanks to overly bearish bets which stopped Fairfax from enjoying the major rally the rest of the market enjoyed. More recently, Fairfax plunged over 23% from its high because of poorly performing short positions and hedges.

Prem Watsa, the CEO of Fairfax, has been a long-time bear, so it was a huge surprise to many when Mr. Watsa turned bullish and eliminated a huge chunk of his bearish positions — Fairfax went from about \$7.6 billion worth of short positions at the end of Q3 2016 to just \$1.7 billion at the end of Q4 2016.

It's never a good idea to time the market, even if you are known as the Warren Buffett of Canada. Mr. Watsa has been correct in the past, but he's been wrong lately, causing enough pain to make Mr. Watsa change his stance.

Mr. Watsa firmly believes that President Trump's pro-business agenda will help give the old bull market a boost, but what if you're still afraid a potential crash may be around the corner? What if you don't buy the Trump promises, and you need a place to hide?

Is Fairfax still a suitable hiding place for the next market crash if Mr. Watsa is bullish?

Many investors have criticized Prem Watsa following his recent poor performance and his sudden bullish view of the markets. A lot of contrarians have given up on the stock, but I still think Fairfax is a great way to get the upside from the current bull market without suffering a massive loss once the next correction arrives.

Although Mr. Watsa is bullish, he still plans to hold on to consumer price index (CPI) linked derivative contracts, which, according to Mr. Watsa, "will protect us if the unexpected happens. The markets are not cheap, so we have to focus always on downside protections with potential upside."

It sounds like Mr. Watsa is not a raging bull at this point, as he appears to be cautious in with his new

stance. Sure, Fairfax isn't a pure bear play anymore, but it's not a pure bull play either.

I would be a buyer while the stock is beaten up because I think Mr. Watsa's new thesis could soon bring Fairfax out of its funk. Trump's new policies will be good for the economy, and I believe Mr. Watsa will do well with his less-bearish stance.

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