1 Key Stock to Diversify, Enhance Returns, and Reduce Risk

Description

One of the easiest means of enhancing returns and reducing risk in any stock portfolio is by diversifying the portfolio across industries and jurisdictions. This is a particularly important strategy for Canadian investors to consider because the TSX is heavy concentrated on financial, energy, and mining stocks. A company that offers investors the ability to diversify their portfolios and possesses a long history of unlocking value and rewarding investors with steadily growing returns is **Fairfax Financial Holdings Ltd.** (TSX:FFH).

Now what?

Fairfax Financial has existed since 1985, and since then it has been under the stewardship of renowned Canadian investor Prem Watsa. For his considerable success in identifying high-quality investments that have consistently generated solid compounding returns, he has at times been called the Canadian Warren Buffett. One of the key features of Fairfax Financial's investments is its employment of a conservative value investment philosophy focused on managing risk, while seeking to invest for the long-term on total-returns basis.

The success of Prem Watsa's approach to investing becomes clear when considering Fairfax Financial's fiscal full-year 2017 results. For the year it reported record net earnings of US$1.7 billion and a remarkable 24.7% increase in book value. Fairfax Financial's book value has compounded at a remarkable rate of 19.5% annually since inception, which represents significant growth in the value of the company's operations.

In fact, Chairman and Chief Executive Prem Watsa described it as the best result in the company's 32-year history. There is every sign that these impressive performances will continue. For the first quarter 2017, net earnings were a remarkable eight times higher than a year earlier, and Fairfax Financial's book value shot up by a healthy 4.9% compared to the previous quarter. A key driver of this was an impressive 42% increase in net premiums written.

The company, by virtue of its insurance, reinsurance, and investment management businesses, gives investors exposure to a range of jurisdictions globally, including Canada, the U.S., Brazil, Southeast

Asia, Hong Kong, China, and the U.K. It is also developing a strong foothold in Eastern Europe, South Africa, India, and the Middle East. Among its investments is a US$250 million investment that gives Fairfax Financial a potential ownership position of 22% interest in Seaspan, the world's largest independent owner of container ships. That investment is poised to deliver a solid return, particularly with global economic growth expanding at a decent rate and lease rates for container ships having bottomed out.

Looking forward, Fairfax Financial is targeting 15% annual growth with a focus on long-term growth rather than short-term profits, emphasizing the strategy, which, to date, has seen the company grow at a solid clip.

So what?

Fairfax Financial is a hard company not to like. Its insurance, reinsurance, and investment management operations allow investors to gain global exposure to a wide range of companies, industries, and jurisdictions, allowing them to gain immediate diversification.

Fairfax Financial also has a long-proven history of successful investing that will continue, as it benefits from existing investments and adds to its portfolio. That makes it easy to see the company growing at the annual 15% clip targeted by management. While investors wait for that growth to occur and Fairfax Financial's value to appreciate, they will be rewarded by its regular, sustainable dividend, which yields 1.4%.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/18
Date Created
2018/05/09
Author
mattdsmith