

## Can This Unorthodox Stock Help You Profit Off the Next Recession?

### Description

Prem Watsa, also known as the Canadian Warren Buffett, is one of the greatest contrarian investors out there. Unlike the actual Warren Buffett though, Watsa has a very unorthodox style of investing; he has made use of shorts and hedges to bolster results in down markets. Just have a look at how Watsa's firm **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)) fared during the Financial Crisis! Shares actually rallied at a time when your average stock plunged by 50% or more.

Although Fairfax may be seen as a "bomb shelter" stock that's insulated from substantial downside in the event of a market-wide meltdown, investors ought to realize that Watsa is by no means an oracle who's able to time the market with impeccable accuracy. While he may be great at spotting macroeconomic trends, he's had his fair of blunders when attempting to time the market, especially during market-wide bull runs, where Fairfax essentially stood on the sidelines and missed out on substantial gains from a rally in the broader market.

Between 2009 and 2013, shares essentially flat-lined at a time when the broader market took off, marking the first leg of the new bull market. And more recently, shares have consolidated in a choppy fashion since 2015 thanks to poorly timed short bets made prior to Donald Trump's presidential victory.

Indeed, Watsa was expecting pain in the markets, but when his predictions didn't come true, his firm took a major hit on the chin, forcing Watsa to eliminate a large portion of his hedge bets.

Although Watsa's "preservation of capital" approach may make Fairfax seem like a bulletproof holding, prolonged periods of underperformance are pretty much a correction in themselves, which essentially nullified periods of outperformance during market downturns.

With Watsa shifting gears to take on a more bullish stance with his investment strategy, investors may not have the same level of downside protection come the next recession if Watsa's new thesis doesn't end up panning out — again. Watsa now firmly believes that the Trump agenda will have a profound positive effect on the U.S. economy, which will, in turn, stand to strengthen the global economy, sending global markets higher over the foreseeable future.

### Bottom line

With Watsa exhibiting a more bullish tone, Fairfax may not be able to soar come the next market crash like it did during the Financial Crisis.

Although Watsa's track record has taken a hit on the chin in recent years, I think, on average, he'll be right more than he is wrong, so if you're looking for a smart fund manager to help you navigate uncertain markets, you may want to consider scooping up shares of Fairfax while they're still depressed.

If Watsa's new thesis ends up being correct, shares could pop, as he's an expert when it comes to

tracking down and scooping up severely battered firms that trade at massive discounts to their intrinsic value. Think recent investments in Toys “R” Us Canada and **Seaspan Corporation** (NYSE:SSW)!

With no hedge bets to slowing his firm down any longer, there’s no telling how high Fairfax will be able to fly as the bull continues to roar.

Stay hungry. Stay Foolish.

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1. Editor's Choice

## Date

2025/08/24

## Date Created

2018/06/08

## Author

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