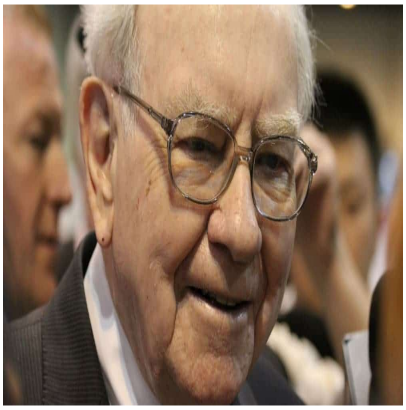

What's Wrong With Canada's Warren Buffett?

Description

Prem Watsa, the legendary Canadian investor also known as Canada's Warren Buffett, has failed to deliver attractive investment results of late, inspiring many investors to question whether Watsa has lost his magic touch and whether it's still worthwhile to stay invested in **Fairfax Financial Holdings** (TSX:FFH), which has clocked in a mere 27% in capital gains over the past five years. Yikes!

Many folks out there, including fellow Fool Ryan Vanzo, are still believers in Watsa in spite of the recent bout of underperformance, touting Watsa's impressive macroeconomic forecasting abilities that allowed Fairfax to become one of the few stocks that clocked in a gain during the Financial Crisis.

"During the credit crisis of 2008, global stock markets lost anywhere from 20% to 70% in value. Even stocks once believed to be safe harbours lost a third of their value or more. Incredibly, Fairfax Financial shares posted a positive return that year! If that isn't impressive, I'm not sure what is." said Vanzo.

While Watsa's incredible pre-2008 call was applaud-worthy, almost all investors have been asking one question: "What have you done for me lately, Fairfax?"

Fairfax Financial falls flat

Watsa has been a big doomsday investor in the past.

He made saw the potential for blood on the streets before anyone else, he loaded up on hedges and short positions and made a killing when all other businesses crumbled like a paper bag.

While Fairfax's performance during the last recession was remarkable, so too was the flatlining of shares during 2009-2013, when the broader markets took off like a bat outta heck. I'd say the underperformance in that period alone is enough to offset Watsa's incredible 2008 call.

Fairfax missed the boat because Watsa remained overly bearish. And right before Donald Trump's presidential victory, Watsa's bearish bets continued to be a drag on Fairfax's results, right up until Watsa made a 360-degree change in stance by becoming bullish to the shock and dismay of many

Fairfax investors who saw the company as a recession-proof holding.

Watsa's finding it's tougher to come across alpha these days

More recently, Fairfax recognized a $756 million loss from equity investments for the fourth quarter. The stock has been treading water ever since as investors continue to ponder whether Watsa is still capable of producing alpha. Given Fairfax's unimpressive underwriting track record, the poor investment results that have been clocked in of late, and Watsa's less bearish view of the global economy, it's not a mystery as to why Fairfax and Watsa have lost a considerable amount of fans in recent years.

While it may be tempting to throw in the towel on Watsa and his firm at this juncture, I'd encourage prudent investors to take a contrarian stance by picking up more shares should they fall below the $600 mark. The stock's gotten pretty cheap, and although Watsa is less bearish than he's been in the past, his firm is still locked-and-loaded with some hedges in place, so Fairfax still has better downside protection than your average stock.

Moreover, Watsa now appears to be setting his sights on emerging markets like India and Africa, both of which could vastly increase the odds of producing substantial alpha over the long term. Fairfax's expanding horizon is encouraging, and with shares hovering around multi-year lows, I'd say Fairfax is a buy in spite of the recent bout of underperformance.

I think Watsa still has what it takes. Every great investor goes through tough times, after all! And for investors patient enough to hang in there, I think big rewards await.

Stay hungry. Stay Foolish.

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Date
2025/08/15
Date Created
2019/04/29

Author
joefrenette