



Is Canada's Warren Buffett Losing His Touch?

Description

Billionaire investor Prem Watsa is often compared to Warren Buffett, and it's easy to see why.

Watsa took many of the same principles Buffett used and grew **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)) into a true insurance powerhouse. He then used the mountains of float generated by the insurance business to invest in undervalued stocks, further goosing total returns.

It's been a fantastic long-term strategy. Since 1985, when Watsa took over, Fairfax has increased its book value by 18.7% annually. The stock isn't up quite as much, but investors have still enjoyed an impressive 17.1% annual return.

Shares ended 1985 at \$3.25 each; by the end of 2018 the stock traded for \$601 on the **Toronto Stock Exchange**.

With that kind of long-term record, it's easy to see why the Buffett comparisons started. Simply put, Watsa is one of the best investors of our generation.

But some investors are beginning to question Watsa's methods, saying he might not be equipped to succeed in today's world. Are they onto something? Let's take a closer look.

Unloved value investing

Prem Watsa knows the downfalls of value investing as well as anyone. After all, he's been practicing it for upwards of 40 years.

Some of Watsa's investments have turned out to be duds, which the naysayers have used as ammunition. **Reitmans** was a particularly poor investment. Fairfax's stake in **Torstar** was also a big loser, and many aren't fans of **Stelco**, Fairfax's latest investment.

Watsa's version of value investing has always been to venture into unloved sectors where assets are cheap. And you won't find many places in the market more hated than retail, newspapers, and steel.

These are all viewed as commodity businesses facing numerous challenges.

Naysayers will also point out that Fairfax is down significantly on these investments. The Stelco investment, which was only made back in November, is already down more than 30%. The Torstar and Reitmans investments have done even worse.

This criticism isn't entirely fair, however. Fairfax has made other investments over the last few years that have done better. Watsa has also made some savvy moves to add to the insurance business.

An optimistic investor could look at that record and take away the positives, while a pessimist would just focus on the duds.

Macro bets

Back in 2014, Watsa started making a huge bet on deflation hitting the developed world in a big way.

Fairfax ended up paying US\$650 million for several derivative contracts that would pay massive premiums if the United States, Britain, France, or the European Union saw significant deflation by 2022.

The total payout was [capped at US\\$109 billion](#), but the likely payout was only US\$10 to US\$20 billion.

This bet didn't work out, and Watsa ended up selling the contracts at a big loss in 2016.

Perhaps Watsa is emboldened by his success predicting the demise of the U.S. housing market and subsequent stock market sell-off back in 2006. That was an impressive call. But most analysts realize that betting huge sums of money on macro calls is silly.

Poor recent performance

While Fairfax's long-term track record is incredibly impressive, the company has lagged lately.

From the end of 2014 to the end of 2018, Fairfax's book value per share only grew from US\$395 to US\$432. That only represents growth of 10%, or a little less than 2% annually. The **S&P 500**, meanwhile, was up more than 50% during that period.

Fairfax bulls point to the long-term success as proof that Watsa can continue growing book value per share at an [explosive rate](#). But five years is a long time to underperform. Perhaps the investing world has changed and Watsa isn't keeping up.

The bottom line

At this point, I'm not ready to write Watsa off. His long-term track record is nothing short of amazing, and Fairfax has accumulated a nice collection of insurance assets. But at the same time, I'd probably start worrying a little bit if I held common shares.

I certainly wouldn't make Fairfax an overweight position in my portfolio until recent results start getting better.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:STLC (Stelco Holdings Inc.)
3. TSX:TS.B (Torstar)

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