TFSA Investors: How to Grow and Preserve Your Wealth the Easy Way

Description

Investing isn't just about maximizing your returns at any cost. Smart investors know that investing is a marathon, not a sprint. It's just as important to consider an investment's downside risk as much as (if not more than) its upside potential.

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Yes, you want to grow your wealth over time, but you don't want a holding to blow up in your TFSA suddenly. Losses in a TFSA hurt that much more since you can't use them to offset capital losses in any one of your other investment accounts.

So, it's important to seek opportunities that aim to tilt the risk/reward trade-off in your favour. That way, you can not only grow your wealth, but you can also preserve it should the markets suddenly turn on you.

Consider **Fairfax Financial Holdings** (TSX:FFH), an insurer and holding company (more like Prem Watsa's personal hedge fund) that many investors have forgotten about in recent years thanks in part to the stock's underperformance relative to the averages.

Over the past few years, Fairfax has fallen flat on its face thanks to poorly timed bets. Although the stock hasn't done much over the past five years, it's important to remember that Fairfax boss Prem Watsa is big into protecting his firm's assets from downside scenarios that few other institutional money managers care to think about.

Watsa isn't a pure doomsday investor, though. At least, not since Donald Trump took office. Watsa is a man who looks at both the bear and bull case objectively and acts accordingly, even if it goes against popular opinion on the Street.

While unconventional hedge positions haven't always worked out for Watsa and Fairfax, they sure did when the markets crumbled like a paper bag during the Financial Crisis. The man doesn't have a crystal ball handy; otherwise, Fairfax would be much better at underwriting. What Watsa does have, however, is a strong understanding of macroeconomic trends to be a successful top-down investor.

Lately, Watsa has his sights set on emerging markets like India and Africa, both of which could allow investors to score far higher returns relative to the risks taken on.

Fellow Fool Kay Ng also noted that Fairfax stock is trading at a 10-year low valuation and that the stock could correct over 30% to the upside should it revert to normalized valuations. The dirt-cheap multiple on Fairfax provides another layer of downside protection for investors who are keen on preserving their wealth as much as growing it.

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