TFSA Investor Alert: This Canadian Insurer Can Give You a 20% Return in the Upcoming Downturn

Description

Smart investors cannot be blamed for souring on **Fairfax Financial Holdings** (TSX:FFH). The company has disappointed investors for quite some time now and has been stuck in the $550-$600 range for the last five years, which is an eternity in the investment world.

While this may not necessarily comfort investors who have seen other stocks, like **TD Bank**, increase by 50% in the same period, it is worth remembering that another stock very similar to Fairfax languished for years, from the heady pre-financial crisis era of 2007 to the post-financial crisis era of 2013. I am talking about **Berkshire Hathaway**, whose stock price was about US$95 in the fall of 2007 and hovered around that level all the way till January of 2013.

Berkshire's performance during those six years would have tested the mettle of even the staunchest of value investors, but sometimes it pays to look at a 20-year chart of a stock investment to see how a company that may seem to stagnate in the short or even medium term can be an absolute winner in the long term.

Stock price significantly below fair value

Fairfax's third-quarter earnings were recently announced, and it did not make for pretty reading at all. Net earnings basically fell off a cliff, declining 35% to US$68.6 million in the third quarter.

But this is where smart investors really have to pay attention, because most people follow the herd and stampede out of a stock when the news headlines talk about something sensational on the negative spectrum that grabs their attention.

That's just as well because sometimes you need the wishy-washy, fly-by-night shareholders to shake out and release shares into the market so that sophisticated institutions, mutual funds, pension funds and the like can step in and fill the investment vacuum with calm, patient capital.

So, my assertion today is that Fairfax is going through just that sort of a period, and smart investors would do very well to keep an eye on this stock, because there are many catalysts that will help this company grow significantly over the next 12-18 months and get back to its fair value.

According to *Morningstar*, Fairfax has a current fair value of about $680, which is about 18% below its current stock price of about $575. The company spent the first half of this year at a stock price roughly equal to its fair value, but the wheels came off a couple of months ago, and the stock feels like it is in free fall.

People forget that Fairfax is a profitable insurance company

My regular readers likely read my last article on Fairfax where I mentioned that all the news headlines seem to be about Fairfax's big bet on **BlackBerry** and how that is not likely to pan out. To look at Fairfax and focus on its BlackBerry stake is to focus on one tree in the massive Canadian Boreal forest.

Fairfax is first and foremost an insurance company, and the most recent quarterly earnings proved that the underwriting business continues to be strong and profitable.

Net premiums increased 12% to $3.3 billion, and underwriting profits grew from $74 million to $81 million, representing a healthy 10% year-over-year increase. This underwriting performance is effectively bankrolling some of the investment losses, which, by the way, are paper losses.

A loss in BlackBerry isn't really a loss until Fairfax sells its stake, and the company has said many times that it is holding BlackBerry shares for the long term.

BlackBerry has bet big on the Internet of Things (IoT), and there is a high likelihood that one of the three big Canadian telecommunications giants will at some point look to beef up their IoT business by acquiring BlackBerry's deep intellectual capital in this space.

Foolish bottom line

Smart investors should remember that at its core, Fairfax is a large scale and successful insurance company that invests in a global portfolio of equity and fixed-income investments. For every dog in its equities portfolio, the company also has some real wins. An example of that is its recent sale of Indian insurance company ICICI Lombard for a significant gain on invested capital.

Basically, all Fairfax has to do is get back to just its fair value of around $680, and that would represent about 20% return on investment for smart shareholders who are able to accumulate shares while they are trading in the $550-$560 range.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/02
Date Created
2019/11/04
Author
rahimbhayani