This Stock Has Your Back in a Recession

Description

What if I told you that a stock could stand to rally in the event of a market crash?

Well, that's precisely what happened with **Fairfax Financial Holdings** (TSX:FFH) stock when the markets fell off a cliff during the Great Recession. Fairfax nearly doubled between 2007 and 2009, while most other stocks were down by double-digit percentage points.

Fairfax has since made up for its recession outperformance with multi-year periods of market underperformance thanks to hedges and short positions that cost the company dearly while the broader markets soared higher.

CEO Prem Watsa may have a knack for forecasting macroeconomic trends, but he's far from perfect.

Over the past four years, both Fairfax and Watsa have been in a pretty big slump. Recently soured investments like **Stelco** and **BlackBerry** have made Watsa look like he's lost his edge, and with a less-than-stellar underwriting track record exhibited by Fairfax over the years, many investors now see Fairfax stock as dead money.

While others continue to throw in the towel, driving shares to multi-year lows, I'd argue that now could be the perfect time to bet on Watsa's comeback.

He's a patient investor. If he sees deep value in a company, he'll sit on his hands until his long-term thesis comes to fruition. And since the man values downside protection just as much, if not more than maximizing upside potential, Fairfax could be one of few names that could keep your portfolio buoyed should that "looming" recession that everybody is expecting comes to be at some point over the next two years.

I'm a massive fan of Prem Watsa and think that investors seeking to improve their portfolio's Sharpe Ratio, a measure of risk-adjusted performance, ought to consider buying the lowly correlated (0.45 beta) name, while it trades at valuations that are close to the cheapest they've been in a decade.

The company recently reported a somewhat decent third quarter with net written premiums up 12%

year over year and a slightly better combined ratio — a ratio that measures losses to gains (lower is better), of 97.5% due to fewer catastrophe losses for the quarter.

Fairfax's underwriting track record is still nothing to write home about, but the recent uptrend remains encouraging. With the stock trading at 9.14 times next year's expected earnings and just one times book, there appears to be a sizeable margin of safety to be had with the name, as it bounces off its $550 support level.

Watsa is a deep-value investor with an "oddball" hedge-fund-style investment strategy.

He's one of the longest-term thinkers out there and is all about maximizing returns relative to the risks taken on. While he's still bullish on Trump, his firm still stands to fall to a lower magnitude come the next inevitable downturn because of remaining hedges and the stock's already dirt-cheap multiple.

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