A Stock to Outperform in a Recession

Description

Investors shouldn't fear a recession, as they're rare opportunities for do-it-yourself (DIY) stock pickers to build a profound amount of wealth over a concise period of time.

While others give into fear and ditch their stocks for two quarters on the dollar, contrarian investors who have the guts to go against the grain are the ones who could double their money in the event of a market rebound with the lowest degree of risk, even though it may seem like the opposite is true in the heat of the moment.

Young investors like millennials should be rooting for the markets to tank so they can get stocks of their favourite businesses at bargain-basement prices.

But of course, one shouldn't time the markets by holding cash as they wait for the crash because the opportunity cost is enormous, especially for someone who's young and able to survive the impact of a recession.

This begs the question: what should investors hold as the bull market continues running into its golden years?

While the bull market may be old, President Trump's pro-business agenda may have given the bull a new set of legs that could keep the bull running for many more years.

So, one should play both the bull and bear cases by investing in an investment that can deliver a good risk/reward trade-off with both scenarios considered.

Fairfax Financial Holdings (TSX:FFH) CEO Prem Watsa, a long-time bear who's positioned his firm with downside protection in mind, is a raging bull on the Trump administration — so much so that Fairfax isn't as "short the market" as it has been in the past.

That's not to say that Watsa is going all-in on his bullish stance, though. Fairfax still has downside protection at the top of its list of priorities because Watsa is an investor that's humble enough to know that there still exists a chance where he's wrong. Unforeseen black swan events happen, so it's essential to have a back-up plan in case things don't go the way you expect them too.

During the Financial Crisis, Watsa demonstrated his exceptional ability to forecast macroeconomic trends. But since 2007-08, Fairfax' returns have been below average thanks to its less-than-stellar underwriting track record and questionable investments.

Watsa maintains his long-term stance, however. He may be bullish on Trump, but he's cautiously optimistic about the state of the global economy, which is only prudent as we head into another U.S. election year.

While it may seem that Watsa's lost his Midas touch, I'd encourage investors to adopt a long-term horizon and consider how well his firm will be positioned come the next significant downturn, which could hit as soon as next year.

With hedges still in place and a valuation that's substantially lower than its historical averages, Fairfax is a name with a large margin of safety and could outperform in the next market crash while delivering a decent risk/reward in the event of an upmarket.

Fairfax is a cheap "all-weather" investment that doesn't get nearly as much respect as it deserves from investors. With improving underwriting and hedges to protect the stock from substantial downside in a bear market, Fairfax is a name that investors should consider owning if they're looking to mitigate risk in their portfolios.

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