The Top Stock to Own if You Want to Retire Rich

Description

Retiring rich is *simple*, but it isn't *easy*. There are only a few ingredients that matter: contributions, returns, and time.

That first factor, contributions, is completely in your control. When was the last time you contributed to your retirement account? What about the time before that?

If you've established a regular contribution habit, then a congratulations are in order, but millions of Canadians fail to save on a regular basis. Establish recurring deposits today to remedy this mistake. For example, you can have a few hundred dollars automatically transferred from your chequing account to your investment account each month. Making transfers *automatic* removes any chance that you'll skip out.

The final two factors, returns and time, are closely related. Compound interest means that your money will grow faster and faster over time. It's the definition of *exponential* growth. The longer your capital is invested, the bigger your annual gains will be. If you can compound higher returns for years on end, that only adds to the speed of growth.

What if I told you that one Canadian stock has generated 17% annual returns since 1985? Would that impress you? It should.

It's been 35 years since 1985. If you invested $10,000 that year and earned a 10% annual rate of return, you'd have $280,000 today. Not bad. But what if you earned the aforementioned 17% rate of return? That $10,000 would have become $2.4 million!

With a market cap of just $16 billion, this stock may have just begun its rapid rise. Now is the time to capitalize.

Meet the master

You've likely heard of Warren Buffett. His company, **Berkshire Hathaway**, has produced marketbeating returns for more than three decades. Sound familiar?

His company owns several insurance businesses that generate large amounts of cash. This cash is called *float*. By investing this cash, Berkshire can tap into a permanent amount of capital, taking advantage of bargains throughout the economic cycle.

But we're not here to talk about Berkshire. There's actually a *Canadian* version of the company, led by a man many deem to be the Canadian Warren Buffett. Meet Prem Watsa, head of **Fairfax Financial Holdings** (TSX:FFH).

As with Berkshire, Fairfax owns a litany of insurance businesses that generate investable cash. Buffett does the investing for Berkshire, while Watsa directs Fairfax's operations. Both individuals have investing records that are beyond reproach.

But why settle for the Canadian Warren Buffett? Why not just buy stock in the real thing? There are two reasons.

First, Buffett is getting old. He turns 90 this year. It's unfortunate, but his investing days are likely numbered. Watsa, however, is only 69 years old. Compared to Buffett, he has at least two decades of value creation ahead of him.

Second, Berkshire Hathaway is *huge*. The company is worth more than $600 billion. At some point, growth should slow simply due to the law of large numbers. That is, it's harder to double in size as a $600 billion company than it is as a $60 billion company.

But Fairfax isn't even worth $60 billion. Its current valuation is just $16 billion. This small size combined with Watsa's young age means that there's likely more long-term upside to this stock than with Berkshire.

Both companies have enviable track records, but only one is suitable for retirement investors hoping to finish rich.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. TSX:FFH (Fairfax Financial Holdings Limited)

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