TFSA Investors: If You Could Only Buy One Stock, This Should Be It

Description

TFSA investors are a smart bunch. Permanently protecting your capital from taxes is an opportunity that no one should pass up.

While millions of Canadians invest through a TFSA, millions still do not. If you don't have a TFSA, open one *today*.

If you already have a TFSA, then congratulations. Yet the battle is far from over. Now, you have to figure out how to invest your tax-protected savings.

Decades of research continually suggests that long-term investing is your best bet to build massive wealth. It can be tempting to constantly try to find the next big thing, but a buy-and-hold strategy has proven more successful.

Just take a look at **Berkshire Hathaway**, which has generated annual returns of 20% for more than three decades. That's double the rate of the stock market overall in the same period. That doesn't mean that a 30-year Berkshire Hathaway investor's final sum would be twice as much. Due to compound interest, their nest egg would be *considerably* larger.

If you invest $10,000 and earn 10% annual returns for 30 years, you will end up with $175,000. Not bad. But what if you earned 20% annual returns? Keeping everything else constant, your $10,000 would become $2.4 million!

Long-term compounders are the secret to amassing wealth. Fortunately, there's one Canadian stock that has all the characteristics of the next Berkshire Hathaway. In fact, this stock runs the *same strategy* as Berkshire, yet is less than 5% of the size, meaning it has decades of growth ahead of it.

Trust the process

Warren Buffett mastered the art of making money at Berkshire Hathaway. The holding company consists of several insurance businesses that throw off regular cash generated from policy premiums.

That cash needs investing, which Warren Buffett happily does, buying huge chunks of both private and public entities.

Because insurance premiums are paid during both bull and bear markets, Buffett has the enviable advantage of fresh cash during every part of the economic cycle. When capital is scarce, Buffett can swoop in and secure once-in-a-decade deals, as he did during the 2008 financial crisis.

Prem Watsa, founder and CEO of **Fairfax Financial Holdings Ltd** (TSX:FFH), figured he shouldn't fix what isn't broken, opting to emulate Buffett's strategy completely. Fairfax owns a number of insurance businesses, and Watsa invests the resulting cash.

Buffett has proven a masterful investor, but how about Watsa?

Since 1985, Fairfax stock has generated annual returns of 17%. That's a bit below Berkshire's performance, but it still makes Fairfax one of the best long-term compounders of capital in recent memory. Plus, there's reason to believe Fairfax will outperform Berkshire in the decades to come.

The first problem with Berkshire is that Buffett, a major force behind its historical success, is now a stately 89 years old. Watsa, on the other hand, is only 69 years old.

Additionally, Berkshire Hathaway is now worth more than $600 billion. The law of large numbers suggests that it will be difficult for the company to grow at a market-beating rate into perpetuity. Another doubling in price would make Berkshire one of the largest companies on the planet. Another doubling after that would make it the largest corporation in history, by a long shot.

Fairfax, meanwhile, is worth just $17 billion. Even if it were to double in price *twice*, it would still be 10% the size of Berkshire. It's not hard to deduce that Fairfax has many more years of growth ahead of it when compared to Berkshire.

The trick to long-term investing is to buy proven business models that have decades of runway to go. Fairfax checks all of these boxes. If you could only own one stock, this should be it.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
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Category

1. Investing

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