



3 Reasons Why I'm Not Investing With Canada's Warren Buffett

Description

Over the long term, Prem Watsa is an absolute legend.

From 1985 – when he took over **Fairfax Financial** ([TSX:FFH](#)) – to the end of 2018, the company's book value per share grew from US\$1.52 to US\$432.46. That's a compound annual growth rate (CAGR) of 18.7% per share. And remember, Fairfax has paid a US\$10 per share dividend for years now, cash out the door that has restricted the growth of book value.

Shareholders have been the beneficiary of this excellent record, with an investment in Fairfax growing at a CAGR of 17.1% per share from 1985 to the end of 2018. And that's even after a somewhat lacklustre performance over the last few years.

Nobody can argue with Fairfax's long-term performance. However, some investors are starting to doubt whether Fairfax can perform up to these standards in the future.

I agree with this assessment. Here are three important reasons why I don't have much interest in Fairfax shares today, despite the phenomenal long-term track record.

Recent underperformance

Despite operating in one of the greatest bull markets in history, Fairfax's recent performance has been underwhelming.

From the end of 2014 to the end of the third quarter in 2019 – the year's full results aren't out yet – Fairfax grew its book value a mere 17.3%. That's not an annual number, either. That's total growth of the value of the company in just under five years.

Now to Fairfax's credit, there is one big reason for at least some of this lacklustre performance. It reports its financial results in U.S. dollars, while a large chunk of its assets are located in places like Canada and Europe. The U.S. dollar appreciated smartly during that time, which hurt local results when converted back to U.S. dollars.

Still, the result was particularly bad. Especially when you compare Fairfax to many of Canada's other insurance giants. Investors don't want excuses. They want results. And the fact is Fairfax continues to languish while just about every other stock keeps marching higher.

Puzzling investment decisions

It's obvious [Prem Watsa](#) is a big fan of Warren Buffett. So why doesn't he invest like the Oracle of Omaha does?

Sure, the two are both self-identified value investors, but that's where the similarities end. Buffett is known for buying the best companies he can at bargain prices. Watsa, meanwhile, seems to love a good turnaround story.

The problem, of course, is that many turnarounds never turn.

Fairfax's largest investment is **BlackBerry**, a stock that has been in deep-value territory for years now. Despite CEO John Chen's best efforts, the company just can't seem to get any traction. Perhaps Fairfax will have the last laugh here, but Watsa has missed out on a lot of potential gains by continuing to hold BlackBerry shares.

It hasn't just been BlackBerry, either. Remember Fairfax's **Reitmans** investment? How about its position in **Torstar**? Heck, the company even bought the Canadian part of Toys-R-Us from bankruptcy. Most analysts would agree industries like women's apparel and newspapers are crummy places to put money to work.

Derivatives bet

Likely emboldened by a great call on the U.S. housing market imploding in 2008–09, Watsa went back to the derivatives market and placed large bets on deflation hitting the developed world in a major way. If these bets had paid off, Fairfax would have made [around \\$110 billion](#).

No, that's not a typo. That was the upside potential.

Unfortunately, there's no happy ending for Fairfax shareholders. Deflation hasn't been an issue, and Watsa's bets on it happening are about to expire, worthless. He also lost money on some other derivatives contracts.

In total, Watsa spent some US\$800 million of Fairfax's money on derivative bets that haven't worked out. That's a reasonable chunk of change for a company that has a current book value in the US\$17 billion range.

I hope Fairfax's chair learns from his mistake and sticks to sound investment principles.

The bottom line

Many investors are starting to lose faith in Fairfax. They've started to notice the company has significantly underperformed the market of late.

Until Prem Watsa and his team can show that they can grow book value faster than the underlying indexes, I suspect the stock will stay in the penalty box.

CATEGORY

1. Dividend Stocks
2. Investing

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

Date

2025/08/20

Date Created

2020/02/24

Author

nelsonpsmith

default watermark

default watermark