



Here's a Stock That Could Rally in the Face of a Recession

Description

Are you ready for another [growth-to-value](#) rotation?

With the Dow crashing 1,000 points in a single trading session, investors who were being overly euphoric with the “sexy” plays that have been working took a brunt of the damage, as investors went from “risk-on” to “risk-off” seemingly overnight.

Such 180-degree sentiment reversals are what the markets are all about. It's impossible to predict market moves over the short term, so it's a much better use of your time to construct a risk-parity portfolio that can allow you to grow your wealth through the ups and downs of the market roller coaster.

Exogenous events can make a short-term thinker go from euphoric to depressed without a moment's notice, so it's a better idea to be humble enough to acknowledge that you don't know where the markets are headed next and have a plan to profit in either a bull or bear scenario.

Not even [Warren Buffett](#) knows (or cares) where the stock markets will head in the near term. He'd much rather focus on buying pieces of individual businesses at discounts to their intrinsic value or sell those businesses when he believes its market value has flown above and beyond its intrinsic value range as a result of overly euphoric investors who've embraced a “risk-off” approach.

Whenever the “risk-on” approach becomes the norm, with investors betting on frothy momentum stocks, you should take on a “risk-off” approach, and vice versa. Right now, the U.S. markets remain quite expensive (Warren Buffett's fourth-quarter actions sure seem to suggest this), and with “sexy” plays dominating the headlines in the mainstream financial media, it makes sense to look to mitigate your risks with a select group of out-of-favour value stocks that can continue to reward you, as the appetite for risk (and market momentum) begin to fade.

Consider shares of **Fairfax Financial Holdings** ([TSX:FFH](#)), a Canadian insurer and holding company that's run by the legendary investment whiz Prem Watsa, who's better known as the Canadian Warren Buffett. I like to see Fairfax as Prem Watsa's hedge fund, given the unorthodox investment instruments the firm has used in the past to mitigate downside risks.

Watsa and Fairfax have been in a slump of late, with mediocre stock picks and a less-than-stellar underwriting track record. Over the last five years, Fairfax stock has declined by 5%, while the broader markets took off over 60%, inspiring many to ask whether Watsa still has his market-beating edge.

Last year, Fairfax's equity investments allowed the company to increase its book value per share by 15%, but the underwriting track record still leaves a lot to be desired compared to the likes of a **Berkshire Hathaway**. For now, Watsa is maintaining his cautiously optimistic stance on the Trump administration. Still, he's always thinking about downside protection because he knows that he, like anyone else, can be wrong.

Foolish takeaway

At today's depressed multiples, Fairfax looks to have a nice margin of safety, and given the hedges that are still in place at Fairfax, I see the name as a potential outperformer once the market purge finally kicks in.

On its own, Fairfax is a lowly correlated investment that's less likely to follow moves made by the broader markets. Combine this with the stock's relative undervaluation, and I see the insurer as a sort of insurance policy to protect your portfolio from excessive losses in a bear market.

If there's a stock that could rally in the face of a recession, it'd be Fairfax.

Stay hungry. Stay Foolish.

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