Buy Alert: This Might Be the Best Dividend Stock in Canada

Description

Dividend stocks are known for their reliability and consistent income. These investments can generate a regular stream of cash that you can use to fund your lifestyle or buy even more stock.

Despite their general reliability, dividend stocks sometimes go on sale. That's exactly the case with **Fairfax Financial Holdings Ltd** (TSX:FFH). While the stock's 2.3% dividend yield may not seem impressive, this might be the best dividend stock in all of Canada.

Be patient

Fairfax Financial is a stock for patient investors. Since 1985, shares have increased in value by 17% annually. A $10,000 investment back then would have become $2.4 million. If you had invested in a stock market index, you would have wound up with only $150,000. That's a multi-million dollar difference.

This is where patience comes in: those gains weren't evenly distributed. From 1995 to 1998, Fairfax shares rose *10 times* in value. From 1999 to 2003, they *lost* 70% of their value. Shares were flat for three years before starting a decade-long run of gains. In recent years, however, the stock has remained flat.

It's been a wild ride, but buy-and-hold investors are likely ecstatic with their decision to stick through the ups and downs. The only way to make consistent money with Fairfax stock has been to hold it for the long term. The reward for that patience has been spectacular.

Would *you* have been able to avoid selling through the rollercoaster of returns? It seems easy in hindsight, but few investors stuck to it. Investors that gave up are likely kicking themselves.

How to take advantage

How did Fairfax achieve such spectacular long-term results? Its founder, Prem Watsa, runs the same strategy that Warren Buffett employs at **Berkshire Hathaway Inc**. Both companies own insurance businesses that produce cash. Watsa and Buffett invest this cash to generate value for stockholders.

Berkshire stock, coincidentally, has been flat for the past two years. That's because long-term value investing is often lumpy. It's sticking through these quiet periods, and investing more during downturns, that can create sizeable multi-decade returns.

Fairfax surely has many years of growth ahead of it. The firm has a $15 billion market cap compared to Berkshire's $500 billion valuation. It's not hard to foresee Fairfax stock doubling and tripling several times over in the years to come.

Today, Fairfax pays a 2.3% dividend. This is hardly a groundbreaking sum, but it's notable considering the other advantages investors receive. Where else can you generate 2.3% annual dividends *and* 17% annual returns?

Even better, Fairfax has shown an ability to withstand intense bear markets. During the financial crisis, Fairfax stock *increased* in value as profits soared to all-time highs. Watsa, it turns out, made billion-dollar bets *against* the U.S. housing market.

It's this flexibility that allows Fairfax to capitalize in any economic environment. Watsa has a proven record of success, a history only rivaled by the likes of Warren Buffett. The 2.3% yield alone doesn't make this the best dividend stock in Canada, but the long-term growth and recession-resistant business model combine to make it a leading candidate.

CATEGORY

1. Investing

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