Buy This Dividend Stock As Markets Nosedive

Description

The market sell-off has resulted in bargain prices for high-quality stocks, especially dividend stocks. Shrinking share prices push up dividend yields, so 3% or 4% payouts have quickly become 5% or 6%. There are certainly some high-yield candidates worth buying, but you can profit even more by taking a different approach.

For example, many low-yield dividend stocks now have a respectable payout. Stocks that were never even considered dividend stocks now pay low single-digit yields. One company in particular now pays a 2.6% dividend, even though it has advantages that no other income stock has.

Here's the proof

If you want to capitalize on the market downturn, look no further than **Fairfax Financial Holdings Ltd** (TSX:FFH) stock. You may not be convinced by its 2.6% dividend, but this could be the best dividend deal on the market right now.

To understand Fairfax, you only need to look at **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B).

Founded by Warren Buffett, Berkshire is one of the most successful stocks in history. For decades, the company has posted average annual returns of 20%. That's simply astounding. If you invest $10,000 at 20% annual returns, you'll wind up with more than $2 million after 30 years.

Few investments deliver this kind of long-term performance. Fairfax is one of them. Since 1985, shares have risen by an average of 17% per year. While that's a bit behind Berkshire, there's reason to believe Fairfax can outperform Berkshire in the decade to come.

What made Berkshire so successful? It has a simple operating model mainly consisting of insurance businesses that generate premiums. Those premiums come in the form of cash, which Buffett invests. These investment returns plus any insurance profits generate gains for shareholders.

What made Fairfax so successful? The same factors. Fairfax owns a litany of insurance businesses that throw off cash. Prem Watsa, the company's founder, is in charge of investing this cash.

Over the decades, Watsa's returns have proven that he deserves a spot alongside Buffett. He's often referred to as the Warren Buffet of Canada.

The time is now

Fairfax stock has been a buy for decades. The market pullback has made it even more appealing. Despite its impressive history, the stock now trades at just 83% of its book value. Berkshire, meanwhile, trades at 115% book value.

The value is now in Fairfax stock, but looking to the future makes the company even more attractive. Fairfax now has a market cap of $14.6 billion versus a $500 billion valuation for Berkshire. In the decade to come, it will be significantly easier for Fairfax to double and triple in size than Berkshire.

Additionally, due to the pullback, Fairfax offers a 2.6% dividend, while Berkshire pays no dividend at all.

Fairfax is now a dividend stock that was never intended to be a dividend stock. Its history shows that it's actually a *growth* stock. Buying a proven growth stock with a 2.6% dividend really is the best of both worlds.

While you may be enticed by pure income stocks with high yields, combining a dividend and growth approach looks like a better long-term strategy. Fairfax stock is the perfect fit.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. 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
2025/08/16
Date Created
2020/03/12
Author
rvanzo