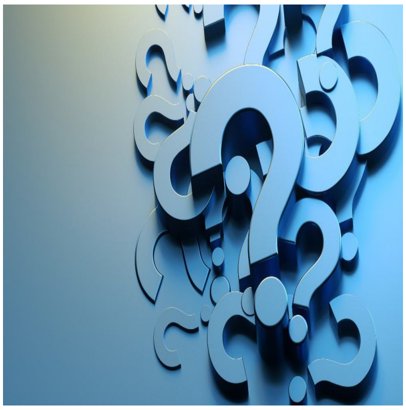

Has the Warren Buffett of Canada Lost His Touch?

Description

Prem Watsa, the CEO and founder of **Fairfax Financial Holdings** (TSX:FFH), is often referred to as the Warren Buffett of Canada. His long-term track record is only rivaled by the likes of legendary investors like Buffett.

Since 1985, Fairfax stock has averaged an annual return of roughly 15%. This is an incredible feat. A $10,000 investment would now be worth more than $1.3 million.

In recent years, however, Prem Watsa has fallen significantly behind the real Warren Buffett. Over the past five years, Fairfax stock has lost 44% of its value. **Berkshire Hathaway**, meanwhile, gained 23%.

To be sure, both Warren Buffett *and* Prem Watsa have posted below-average returns recently. But Fairfax is certainly the laggard.

Here's the thing: this isn't the first time Fairfax stock has struggled. Several times over the decades the stock has dipped by double digits. In every case, the stock was a long-term buy. Is the latest share price collapse any different?

The new Warren Buffett

For years, Fairfax investors believed that Prem Watsa was the new Warren Buffett. Now valued at $500 billion, Berkshire's best days of growth are likely over. Fairfax, meanwhile, is valued at just $10 billion. This small size positions the company to replicate Berkshire's success. Or at least that's what bulls have argued.

This argument has some credible backing. For starters, Berkshire and Fairfax run identical business models. Both own large insurance businesses that generate regular cash flow through premiums. Watsa and Buffett are in charge of investing this capital. Through insurance profits and investment gains, both businesses build wealth for shareholders.

However, the fate of either company lies with the performance of its chief investor.

Since 1970, Berkshire’s book value per share has increased by more than 20% annually thanks to Warren Buffett’s prudent investing. Watsa isn’t too far behind, with 15% annual returns since 1985.

Buffett certainly has the stronger track record, but the law of large numbers suggests that it will get harder and harder for him to replicate this success. Watsa could triple the size of Fairfax several times over before reaching Berkshire’s size.

Should you buy Fairfax stock?

Watsa has earned his reputation as the Warren Buffett of Canada, but his recent performance has been difficult to swallow. Many investors are jumping ship. Fairfax now trades at 60% of its book value. Berkshire trades at 114% book value, nearly double the multiple.

This looks like a fantastic time to buy Fairfax stock. Just make sure that it’s a long-term investment. Unlike Buffett, Watsa has placed big bets in riskier areas of the world, including Egypt, India, and Africa. These are bets that take advantage of multi-decade growth tailwinds, but volatility from one year to another can be stomach churning.

If the insurance business can maintain profitability with a 95% combined ratio, and Watsa can generate a 7% return on the investment portfolio, Fairfax should be able to generate 15% annual returns for shareholders. In 2019, the company achieved a 97% combined ratio and a 6.9% return on its investment portfolio, resulting in a 14.8% increase in book value.

The coronavirus crash has no doubt punished the company’s short-term book value, but the long-term strategy is already proven. Prices will eventually rebound, and so will Fairfax’s valuation multiple. And while Watsa has lagged the real Warren Buffett in recent years, buying the stock at 40% off stated book value is too good to pass up.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. 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. Bank Stocks
2. Coronavirus
3. Investing

Date
2025/08/24
Date Created
2020/05/23
Author
rvanzo