Why Did Fairfax (TSX:FFH) Stock Skyrocket 38%?

Description

Fairfax Financial (TSX:FFH) is a legendary stock. Since 1986, shares have produced annual returns of roughly 15%. This long-term track record is difficult to match.

Let's say you invested $10,000 in FFH stock in 1986. How much would that be worth today? A cool $1.1 million.

But here's the thing: Fairfax's returns haven't been that consistent. In fact, they're *extremely* lumpy. Some years bring incredible gains, while other years see no upside at all.

In the financial crisis of 2008 and 2009, for example, when most companies were shedding value at a rapid pace, Fairfax shares actually *increased* in value. Yet from 2014 to 2019, when global stock markets were surging, the share price remained flat.

The lumpiness of these returns proves the importance of long-term investing. Those that tried to time the market likely got burned. Those with a buy-and-hold attitude were the winners.

In recent weeks, we experienced another sudden shift in Fairfax's stock price. Since mid-May, shares have skyrocketed in value by nearly 40%. The reason behind this surge could signal a *giant* buying opportunity.

This is crazy

Fairfax has a long-term track record that is only matched by the likes of Warren Buffett and **Berkshire Hathaway Inc**. These stocks rarely go on sale. But that's exactly what happened earlier this year.

Over the past five years, FFH stock averaged a valuation of 1.2 times book value. Its highest valuation over that time period was 1.7 times books value, which was set in 2017.

The coronavirus pandemic, however, caused Fairfax shares to slide significantly. On May 13, shares were priced an astounding 0.5 times book value! If you acted quickly, you could have bought one of the best-performing stocks ever for half price.

Prem Watsa, the company's founder and CEO, agreed that the valuation was ludicrous. He recently deployed $200 million to repurchase stock. In less than a week, the company bought back nearly 500,000 shares.

According to *Bloomberg*, "In 35 years since Fairfax began, Watsa says he's never seen Fairfax shares sell at a bigger discount to their intrinsic value." He specifically noted that FFH stock was "ridiculously cheap" and the recent repurchases "will be an excellent long-term investment."

Buy Fairfax stock?

Shares clearly skyrocketed in value due to the absurd valuation. Watsa's vote of confidence added fuel to the fire. After the surge, are shares still a buy? Absolutely.

Fairfax now trades at 75% book value. That's still a discount to its intrinsic value, not to mention its historical multiple range. By buying *below* book value, you can augment your future returns.

If Watsa can grow book value by just 10% annually over the next decade, and the multiple discount slowly narrows, your personal returns could approach 15% per year.

With a business model that almost perfectly replicates Berkshire Hathaway, there should be plenty of growth ahead. That's especially true when comparing market caps. Berkshire is worth $500 billion, while Fairfax is worth just $12 billion. Plus, Buffett is 89 years old, while Watsa is just 69 years old.

Fairfax's valuation is no longer ridiculous, but it's still a steal for long-term investors willing to trust one of the most proven companies in Canada.

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