This Stock Has Generated 15% Annual Returns for 35 Years

Description

Everyone loves **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B). This stock has produced double-digit returns for decades. Countless millionaires were minted.

But there's a problem: Berkshire is now worth more $500 *billion*. Continued double-digit growth will be difficult.

When the company was worth only $50 billion, it only needed to create $7.5 billion in additional value to generate 15% returns for shareholders. Today, it needs to create $75 billion in new value to do that. That figure continues to mount every year.

Fortunately, there's a stock that is an exact clone of Berkshire. But this business is worth just $12 billion. There will be decades of growth ahead of it.

The best news is that this stock already has an impressive track record, producing 15% annual returns over the last 35 years. Given its size advantage versus Berkshire, I'm betting that this smaller copycat will outperform in the years to come.

The Warren Buffett of Canada

Meet Prem Watsa, founder and CEO of **Fairfax Financial** (TSX:FFH). People call him the Warren Buffett of Canada, and for good reason. Fairfax is a mini-clone of Berkshire.

Let's start with how each company is set up.

Both Berkshire and Fairfax own a wide variety of insurance businesses. You may be surprised to learn that these aren't very profitable. Some years, they simply break even on the premiums.

Where insurance companies make their money is by investing the *float*.

When you pay your insurance premium, the company keeps it, interest-free, until there's a claim. That cash is called float. Warren Buffett calls this permanent capital, because it’s always there to invest.

At Berkshire, Buffett does the investing. At Fairfax, Watsa is in charge. It’s these investing activities that produce big gains for each stock. The insurance companies may produce 5% annual returns over time. The investing component, however, can produce gains of 10% or more.

Trust this stock

In total, using this invest-the-float strategy, Berkshire and Fairfax have produced annual stock returns in excess of 15% for decades. All they need to do is use the rinse-and-repeat process time and time again.

Given the huge disparity in market caps, I’m betting Fairfax will have an easier time maintaining its breakneck growth rates. The law of large numbers is just too hard to overcome.

To reach Berkshire’s size, Fairfax stock would need to grow *30 times* in value. But if Berkshire grew 30 times in value, it would be worth $15 trillion. That’s 10 times bigger than **Amazon**.

The other reason to trust Fairfax over Berkshire is their respective valuations. Right now, Berkshire shares trade at a 20% *premium* to book value. Fairfax shares, however, trade at a 30% *discount* to book value.

Given both companies achieved incredible return profiles for more than three decades, this gap in valuation seems unwarranted. Prem Watsa agrees. He’s buying back stock as fast as he can, calling shares “ridiculously cheap.”

“In 35 years since Fairfax began, Watsa says he’s never seen Fairfax shares sell at a bigger discount to their intrinsic value,” *Bloomberg* reported.

Now looks like the time to buy discounted shares of this proven stock.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Investing

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NYSE:BRK.B (Berkshire Hathaway Inc.)
3. NYSE:BRKA (Berkshire Hathaway Inc.)
4. TSX:FFH (Fairfax Financial Holdings Limited)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Investing

Date
2025/07/20
Date Created
2020/06/28
Author
rvanzo