Value Investors: Are These 2 Stocks Cheap or Value Traps?

Description

There are a lot of investors who wish that they had gotten in on Warren Buffett's **Berkshire Hathaway** when it first started. Over the years, the value investor skillfully managed capital under his control, building a massive empire in the process. Over the decades, the Oracle has showed investors that a long-term approach focused on choosing stocks can beat the overall index.

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Unfortunately, the past decade has not always been kind to value investors like Buffett. His company has underperformed the market, as have organizations that fit into a similar style of investing. Canada has a few value investing holding companies of its own. They certainly were punished, but should you buy these cheap underperformers today?

Canada's value conglomerates

Canada's value investor Prem Watsa had similar issues over the past few years, with **Fairfax Financial Holdings** (TSX:FFH) still sitting at a rather low level. The stock has gone nowhere basically since 2014, underperforming the larger market. Fairfax's value-focused strategy is struggling to keep up with high-flying tech stocks after this latest round of money-printing.

Another holding company, **ONEX** (TSX:ONEX), has practically the same issue as the other two companies. The stock fell significantly back in March and has struggled to regain ground. The company recently purchased WestJet. This acquisition has not exactly been accretive for the ONEX.

Dividends

Another drawback to these companies is the small yield. Both dividends have attractive attributes, depending on what you are looking for. Fairfax has a larger absolute yield of 3.29%. At first glance, you might be drawn to this yield over that of ONEX. After all, ONEX has a very small dividend at only 0.67%.

But absolute yield isn't everything. Fairfax's dividend has been steady at US$10 a share for at least a decade. You are not getting any growth out of this company. ONEX has a bit of a crazier situation, with the dividend bouncing up and down over the same period.

Value propositions

The main factor to decide to own these stocks has to do with the value locked up in the companies. Both trade at remarkably low valuations. Fairfax currently trades at about 70% of its book value. ONEX trades cheaply as well at 74% of its book value. Of course, holding companies tend to trade at lower valuations. It does not guarantee that these stocks will move any time soon.

The bottom line

Being more value focused, I feel these companies' pain. It has been a rough decade for value investors. Low rates tend to herd people into momentum stocks with higher growth rates. Value is a bit of an old-fashioned idea for most investors at the moment. That trend is reflected in the stocks themselves, which also trade cheaply.

The problem is that cheap companies can remain cheap for a long time. The value investing community was totally unprepared for the massive amount of debt that governments are willing to take on. These stocks don't have large enough dividends to entice me to wait, nor are they showing signs of moving up any time soon. I think I'll just wait and see.

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TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:ONEX (Onex Corporation)

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