



Warren Buffett of Canada: Shares of This Value King Just Hit a Massive Buy Signal

Description

Don't bet against Prem Watsa, the Warren Buffett of Canada. The man may be in a bit of a slump, like the real Warren Buffett, but everybody, even the best investors on the planet, have their fair share of underperforming periods.

This isn't the first time Watsa has fallen into a slump, and it's probably not the last. Fortunately, such periods are temporary, and if you have faith in the legendary investor, now is a great time to bet on the man's comeback, while shares of **Fairfax Financial Holdings** ([TSX:FFH](#)) still trade close to the [cheapest](#) they've been in recent memory.

Moreover, a bullish head-and-shoulders (H&S) reversal pattern looks to be in the works for the oversold insurance and investment holding company. Now, we're fundamental analysts first and foremost here at The Motley Fool. I've been bullish on shares of Fairfax, even before the potential reverse H&S pattern started to form. Now that there's a chance that the pattern could come to fruition over the coming weeks, I'm that much more bullish on Fairfax's ability to correct to the upside.

Could Fairfax stock be ready for a massive upside move?

With earnings on tap on July 30, I think a quarterly beat could be the spark that sends shares of Fairfax sharply higher, thus completing the H&S pattern.

Going into the quarter, expectations are quite low following the brutal first-quarter results that saw steep investment losses. Given the bar is quite low, investment losses have likely recovered considerable ground, and the likelihood that Fairfax's underwriting track record shows further signs of improvement, I'd say Fairfax is one of the timeliest stocks to pick up on the entire **TSX Index**.

If I had to bet, I'd say that the Warren Buffett of Canada could be in a spot to [make up for lost time](#). He's been off his game, but all it will take are a few quarters for the man to regain the fans he lost over the past decade of meagre returns at Fairfax. If you wait for the fans to return, though, you'll pay a

much higher price of admission into the insurer that I like to think as Prem Watsa's hedge fund, given his use of exotic instruments.

Why bet on the Warren Buffett of Canada?

Prem Watsa has a knack for spotting macroeconomic trends and the conviction (and guts) to place bold bets across investments that he deems fit, no matter how unorthodox. The man is all about maximizing upside while minimizing downside, meaning he'll hedge his bets and do his best to achieve excess risk-adjusted returns for investors. Of course, hedges can go sideways, as too can bold concentrated bets.

Foolish takeaway

Despite the recent bout of underperformance, I'm still a believer in Watsa's abilities and think Fairfax's low beta (0.68) and severely depressed valuation ought to be acted on by value investors and traders alike given the strong fundamentals and technicals.

Even if Fairfax's coming quarter misses the mark, and the H&S pattern never fully comes to fruition, I still think the stock is a buy for long-term investors for its wide margin of safety at 0.4 times sales. And, of course, there's the bountiful 3.2%-yielding dividend to collect while you wait for Watsa to turn the ship around.

CATEGORY

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