Forget Berkshire Hathaway: Buy This Stock Instead

Description

Berkshire Hathaway (NYSE:BRK.A)(NYSE:BRK.B) is one of the best stocks in history. Shares have increased by 20% annually for more than three decades. A few thousand dollars would have become *millions*.

But all good things come to an end. For Berkshire, it's a simple math problem.

The problem is simple

"If I was running $1 million today, or $10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling," Buffett explained in an interview years ago.

"The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that."

The premise here is simple. When Berkshire was smaller, it could grow faster. After all, it's easier to double in size as a $5 billion company than as a $50 billion company.

But Berkshire isn't worth $5 billion anymore, nor is it worth $50 billion. Today, the firm is valued at $500 billion, making it one of the largest publicly traded companies in the world.

If the stock maintained its 20% per annum growth rate this decade, it would be worth more than $3 trillion by 2030. That's twice as large as **Amazon**. It's possible, but also difficult.

Betting on BRK stock over the past few decades was radically different than betting on the company today. Even Buffett admits that the game has gotten much harder.

Still, the Berkshire model is a proven system for generating long-term wealth. If you could hop in a time machine, back to when the firm was valued at $15 billion, it would be wise to make a *huge* bet. Fortunately, there's one Canadian stock that lets you do just that.

Meet the new Berkshire

Fairfax Financial (TSX:FFH) is run by Prem Watsa, the Canadian Warren Buffett. From the start, his company sought to emulate Buffett's proven model.

Like Berkshire, Fairfax owns a litany of insurance businesses. These produce regular cash flows, which Watsa invests. He believes insurance profits plus investment gains should produce 15% annual returns. Indeed, since 1986, Fairfax stock has averaged 15% annual returns.

While this return profile isn't as high as Berkshire's, Fairfax has one major advantage: size. Fairfax is currently worth $15 billion. That's only 3% the size of Berkshire! Plus, Watsa is 69 years old, versus Buffett's age of 89 years old.

Both of these stocks are run by famous money managers. Both have proven track records demonstrating their formula for success. The only question now is which company can replicate its success for another few decades.

Given Fairfax's diminutive size and Watsa's less-advanced age, I'm betting that it outperforms Berkshire in the years to come. That's especially true when you factor in valuation. FFH stock now trades at 0.7 times book value. BRK stock trades at 1.3 times book value.

If you want to bet on the next Berkshire Hathaway at a bargain price, Fairfax is for you.

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2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. TSX:FFH (Fairfax Financial Holdings Limited)

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