Bet On Canada’s Warren Buffett With This Battered TSX Stock

Description

Warren Buffett fans don’t see stocks as most other investors do. They view stocks as pieces of businesses to own over the long run and are less affected by the day-to-day movements that seem to push beginners to take action when none is required. You see, Warren Buffett is all about long-term investing and not making moves for the sake of looking busy. He and his right-hand man, Charlie Munger are more than willing to sit on their hands until the next big opportunity to invest with a wide margin of safety presents itself.

Warren Buffett: You have to be careful *how* you bet on the market

With the stock market at new heights and frothy valuations, Warren Buffett fans would be wise to follow in the Oracle of Omaha’s footsteps by adopting a cautiously optimistic approach to investing by picking one’s spots wisely. It’s my opinion that we’re in an environment that’s highly favourable to stock pickers right now, given the massive valuation gap that’s developed over the past year and the likelihood of a continued rotation out of growth and back into value.

As a stock picker, you can scoop up the unfairly battered names with favourable risk/reward profiles while taking a raincheck on extremely overvalued names that are more likely to feel the full force of the next stock market crash or correction. Such a broader market downturn could be exacerbated by extreme margin debt levels and will be less kind to those who’ve neglected valuation.

In this piece, we’ll look at one dirt-cheap Canadian stock that I believe provide value-conscious Warren Buffett fans with a considerable margin of safety and a good shot at outsized returns over the next 18 months.

Fairfax Financial Holdings: A cheap way to bet on the Canadian Warren Buffett

Fairfax Financial Holdings (TSX:FFH) is an insurer and holding company run by the legendary Prem Watsa, a man we know as Canada's own version of Warren Buffett. Like the Oracle of Omaha, Watsa and his firm have fallen into a slump due to the coronavirus crisis. While both men have underperformed the broader indices of late, I think it'd be unwise to count either man out at these depths, especially given their incredible track records.

Watsa is a more unorthodox investor than Warren Buffett, with bold bets and intriguing hedges using various exotic instruments than Buffett may not be inclined to leverage. As a result of Watsa's ability to spot and react to macroeconomic trends, his firm, Fairfax, ended up being one of the few green spots in the market-wide sea of red during the 2008 market meltdown.

While Watsa's recent underperformance has raised doubts as to whether the man can generate meaningful alpha over the long run, I'd argue that it's seldom been cheaper to bet on Watsa's comeback. Fairfax's underwriting track record has shown signs of improvement, and I think Watsa's longer-term bets will eventually yield fruit.

At the time of writing, shares of Fairfax Financial Holdings are trading at 0.9 times its book value. While the stock isn't as discounted as it was a few months ago, I'd argue that the risk/reward has never looked better with the recovery trajectory that lies ahead.

Foolish takeaway

I believe Canada's Warren Buffett can still generate alpha over the long run and would urge value investors to consider initiating a position on the name before it really has a chance to bounce back after the horrific COVID-19 crisis.

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