1 Deep-Value Stock That's Nothing Short of Intriguing Right Now

Description

Deep-value stocks are not going to be for everyone. They tend to be pretty volatile, and many investors may not have anything to show for their patience for years after they've punched their initial ticket in. Further, such deep-value plays tend to have multiples that look too good to be true.

Oftentimes, such deep-value plays, especially those in the 52-week low list, tend to be grouped with the value traps. Indeed, low multiples suggest earnings can't keep up the pace! It's the job of the investor to differentiate between value traps and deep-value plays. Undoubtedly, the rewards can be great. But at the same time, you could be looking at a stock that will not do a heck of a lot much over the medium term. That's why you need conviction and a time horizon to see a stock you've deemed as cheap to "correct" upwards towards its fair value.

Indeed, it's not easy to be a deep-value investor, especially if you're a beginner who wants to see results over a quarter to quarter or in a year. Indeed, it may take three years or more for Mr. Market to finally realize his undervaluation mistake.

In this piece, we'll have a look at one deep-value stock that I believe is undervalued. That said, it could take as many as three or even five years to correct to a multiple that justifies the company's true worth.

After a year of sub-par results, you may wish to throw in the towel and deem that you were wrong. Indeed, deep-value stocks are a true test of one's ability to hold on. Put in the homework and have conviction, but always be humble and willing to re-evaluate your thesis as time goes on. Investment theses can change in time. If nothing else has changed but the price, then you may be in a spot to profit from deep-value plays.

Fairfax Financial Holdings

Fairfax Financial Holdings (TSX:FFH) is such a hard stock to hang onto, given the volatility and its tendency to trail when broader markets move higher. Undoubtedly, correlation to the TSX Index can work both ways. Names like FFH stock can surge in recessions, as they did during the 2008 Financial Crisis.

Through Fairfax, you're getting a solid insurer and investment holding firm run by the legendary Prem Watsa, a man who's fallen into a slump in recent years. Though Watsa is known to make big, bold bets and hedge himself from macro events, many investors question his skill. Further, Fairfax isn't yet in the same ballpark as Warren Buffett's **Berkshire Hathaway**. That said, the underwriting track record has shown signs of progress. And in due time, Watsa's deep-value bets may finally pay off big time.

At writing, FFH goes for 4.2 times trailing earnings. That's incredibly cheap, but will Watsa's hedges and bets get in the way of the recent rally? Or could it allow FFH to rally in the face of a broader bear market? I think the latter. I'm a huge fan of Watsa and find the risk/reward to be incredibly good for those who also believe in the man's ability to create alpha over the long run!

CATEGORY

1. Investing

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Date
2025/07/23
Date Created
2022/02/22
Author
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