This Cheap Stock Is Crushing the TSX Index! Further Outperformance Likely

Description

Canadian investors who missed the recent July bounce may be tempted to wait for a pullback towards the recent market lows before initiating any positions. Undoubtedly, nobody wants to be caught chasing stocks on the way up, only to be slammed with a plunge just as steep as the run-up.

Bear market bounces, or bull traps, as they're called, can make it challenging to be a net buyer of securities after such a robust monthly run. Though a handful of bear market bounces in the S&P 500 and Nasdaq 100 in the first half of the year, it's impossible to tell if the July rally will end up being sustainable until well after the fact.

In any case, investors should focus more on low-cost opportunities flying by their radar than attempting to predict what markets will do in August. Indeed, August could go either way after one of the best months for markets in recent memory.

In this piece, we'll look at one intriguing stock that I find most compelling at this critical market juncture.

Fairfax Financial Holdings

Fairfax Financial Holdings (TSX:FFH) is a diversified insurance and holding company run by Prem Watsa — a man many refer to as Canada's Warren Buffett. The corporate structure of Fairfax may be similar to that of Buffett's empire, and Watsa may be a patient value investor. However, Watsa stands out as more of a deep-value investor willing to look to the depths to find the largest margins of safety out there.

It's not easy to be a deep-value investor, especially during periods where there's a lack of value to be had. Now that the tides have turned on stocks, Watsa may be able to find more places in this market to "stock pick" his way to outperformance.

Indeed, Watsa is known to hedge his bets when he sees signs of trouble. That's a significant reason why shares of FFH held their own during the 2008 stock market crash, rallying in the face of turmoil.

In 2020, Watsa wasn't able to pivot as quickly. The stock promptly shed 45% of its value from its 2020 peak to its trough before recovering fully in the back half of 2021. Year to date, FFH stock has been crushing the TSX, up 11%.

Despite the resilience, shares trade at 0.9 price-to-book (P/B) multiple, which is well below the insurance industry average P/B of 1.9. With a single-digit discount to Fairfax's book value, the risk/reward scenario seems too good to pass up, even if the markets seem overdue for a mini-correction after such a steep July jump.

A tough second quarter for Canada's Warren Buffett

Though Fairfax is a great low-beta stock to own for tough times, the firm is not immune to wild market swings. Fairfax clocked in a net loss of US$881.4 million in Q2 due to US$1.5 billion in net investment losses. Understandably, almost everyone, including Warren Buffett, saw their investments take a hit, as the S&P 500 plunged into bear market territory in the first half of the year.

With stocks picking up traction again, many firms, Fairfax included, could see net losses turn into net gains, as Watsa has yet to realize such losses on the dip. If anything, Watsa may be more inclined to top up his positions should volatility persist through year's end.

CATEGORY

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Date

2025/09/21
Date Created
2022/08/02
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