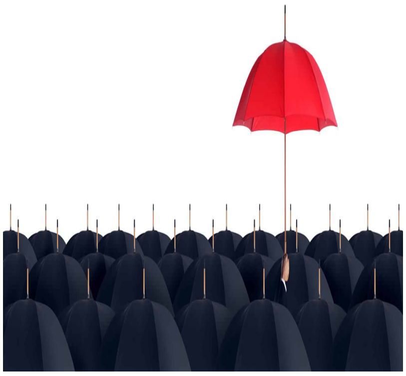

Fairfax Financial – Is It a Buy in January 2023?

Description

Fairfax Financial (TSX:FFH) is a Canadian holding company involved in insurance and investment management. Its core business operation is property and casualty insurance; it uses the profits from this business to invest in various companies and funds. Property and casualty insurance is the kind of insurance people buy to protect themselves from unexpected disasters, an example of which is fire insurance. When a company writes an insurance policy, it collects premiums from the customer, which it can use to invest in securities. Fairfax's investment approach, led by CEO Prem Watsa, has a solid track record.

Fairfax Financial is in many ways similar to **Berkshire Hathaway.** Much like Berkshire, it is an insurer that invests in assets that are riskier than the usual insurance company fare. In this article, I will explore key points you need to know about Fairfax, so you can decide whether it's a good investment.

What Fairfax does

At its core, Fairfax is an insurance company. Insurance companies write policies to protect people from various adverse events (e.g., property damage, investment losses, death). They collect premiums from their customers which they can invest into the markets. Fairfax's insurance business includes a number of unique specialty forms of insurance; for example, it owns Thai Re, which does engineering insurance. Insurers with unique types of insurance niches like this have an edge, because it means they're in a space with comparatively little competition.

The more interesting part of Fairfax is its investment style. FFH CEO Prem Watsa manages the company's money according to value investing principles, owning well-known value stocks like:

- **Bank of America.**
- **Micron Technology.**
- **Alibaba.**

These are all great stocks, and there are other good ones in the portfolio as well. Though one FFH portfolio stock I'm not sold on is **BlackBerry.** It's a former smartphone maker that now does car and enterprise software. Its car software is widely used but it hasn't translated into much profit for the company. BB stock's only 6% of Fairfax's portfolio though, so maybe FFH will do well even if BlackBerry goes nowhere.

Recent results

Fairfax Financial's results weren't so hot in 2022. The last two quarters saw declining assets; the most recent quarter saw negative net income, too. The declining earnings appears to have been due to an increase in claims. When people make insurance claims (i.e., request a payout), the insurance company has to pay out cash, resulting in a negative earnings impact. The last year has seen an increase in many types of risks; for example, adverse weather events and COVID-related health incidents. During turbulent times, insurance companies tend to do poorly, because of these increasingly frequent risk events. Fortunately, they tend to improve rapidly when risks fade, so I wouldn't take Fairfax's lousy third quarter as evidence of a long-term trend.

Foolish takeaway

Fairfax Financial has a lot of things going for it. Its CEO is a great capital allocator, its insurance companies are writing plenty of policies, and it has a solid long-term track record. The last few quarters weren't great, but few insurance companies really thrived in the 2020–2022 period. The company's investment portfolio has done very well; that alone might justify taking a position in FFH stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

PARTNER-FEEDS

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5. Newscred
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