

Why Fairfax Stock Surged 84% in The 2022 Bear Market?

Description

While the S&P 500 Index surged 11% last year, Fairfax Financial Holdings (TSX:FFH) surged 80%. Hedge funds tend to outperform the market because of their aggressive approach. But for Fairfax, its conservative value investment philosophy focused on long-term shareholder value paid off. t water

What does Fairfax do?

Fairfax is primarily a property and casualty insurance and reinsurance company. It is also a holding company that acquires companies or buys significant stakes in them and holds them for the long term. Its founder Prem Watsa is popularly called the Warren Buffett of Canada.

Watsa's portfolio has 53 shares, but almost 80% of its portfolio value comes from just four shares. Similar is the case with Buffett's portfolio where five stocks make up over 70% of his portfolio. That's the trick of value investing, you buy undervalued stock and diversify your portfolio across sectors. Hence, when the value of the stock grows, its holdings automatically increase.

Fairfax's top four holdings were responsible for its 2022 rally.

Atlas Corporation

Fairfax has 47.4% of its holdings in **Atlas Corporation** (TSX:ACO), a global asset management company with holdings in quality infrastructure assets in the maritime, energy, and other infrastructure verticals. It is the parent company of Canadian Utilities. ATCO stock surged 32% between January and August 2022 as it benefitted from rising oil and gas prices. Elevated energy prices continue to drive ATCO's stock, and a rising ATCO stock price was partially responsible for Fairfax's 2022 rally.

In November 2022, led by chairman David Sokol, Fairfax and Ocean Network Express created an entity 'Poseidon Acquisition' to acquire Atlas in an all-cash deal of around \$10.9 billion. The deal is expected to close in the first half of 2023, after which Atlas will stop trading on the stock exchange.

Resolute Forest Products

Fairfax has 15.7% of its holdings in pulp and paper company **Resolute Forest Products**. Forestry is a mature industry that is consolidating. Fairfax is selling its stake to **Domtar** at a breakeven point and the transaction is expected to close in the first half of 2023.

Other holdings

Fairfax has 10.5% of its holdings in **Kennedy-Wilson Holdings**, a REIT with multifamily and office properties across the United States, the United Kingdom, and Ireland. The REIT gives Fairfax's portfolio diversification across asset classes.

Fairfax has a 5.7% holding in **BlackBerry**, the cybersecurity management and internet of things (IoT) operating system company. BlackBerry is popular among investors because of Prem Watsa's significant holding. Two years back, Blackberry was the second largest holding of Fairfax, but its stock fell 50% in the 2022 tech stock sell-off. Watsa still has holdings in Blackberry as he sees value.

Why did Fairfax stock surge 84% in 2022?

Fairfax's portfolio has a mix of dividend and growth stocks, with some of its top holdings in tech stocks. Other than BlackBerry, it has holdings in **Intel**, **Micron Technology**, **TSMC**, **Alibaba**, and **Alphabet**. This growth stock portfolio helped Fairfax stock rise 77% in the tech stock bubble from November 2020 to December 2021. And its dividend-heavy traditional stocks like energy and REITs helped Fairfax stock surge 84% in 2022.

Fairfax's portfolio mix invests in assets that are uncorrelated or move in opposite directions in a given macro event. For instance, it reported a third-quarter loss of \$242.4 million on bonds as rising interest rates lowered their value. Simultaneously, rising interest rates increased its interest and dividend income from a run rate of around \$530 million annually at the end of 2021 to around \$1.2 billion annually as of September 30, 2022.

Thus, even though Fairfax reported \$519.1 million in net loss on investments in the third quarter, a loss of \$154.8 million in equity and \$141.9 million in foreign exchange were unrealized. In other words, the net loss will not impact its cash flows.

Is Fairfax stock a buy in 2023?

Portfolio diversification can help you beat market uncertainty, and Fairfax has a diversified portfolio. The stock is trading closer to its 52-week high, which is not a good entry point. You can buy the stock in a market correction and benefit from Watsa's portfolio strategy.

CATEGORY

- 1. Dividend Stocks
- 2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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- 2. Flipboard
- 3. Koyfin
- 4. Msn
- 5. Newscred
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