



Should You Invest With Canada's Warren Buffett?

Description

The greatest investor in the world is Warren Buffett. He has built an incredible empire by making smart value investments. But part of the reason he was able to build his great wealth is because he owned insurance businesses and had ample float.

Float is the difference between the premiums paid by customers and the claims made on their policies. For example, if an insurance company brings in \$100 million in premiums, but it only pays out \$75 million in claims, it has \$25 million. That's profit alone, but then if you take that money and reinvest it, you're using other people's money to grow your portfolio.

In Canada, there's another investor with the same business model that invests similar to Warren Buffett, and his name is V. Prem Watsa. He's chairman and CEO of **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)). So, how is the business doing?

Last year was a difficult year primarily because of hurricanes Harvey, Irma, and Maria, along with earthquakes in Mexico. The combined ratio across all its different insurance brands was 106.6%, which means it paid out 6.6% more than it paid out. However, catastrophic losses accounted for 13.7% of the payout, so if those hadn't happened, the company would have had a positive float.

We knew hurricanes were going to be a problem, even when looking at the [third-quarter results](#), but it's still frustrating to see. However, that's not the entire story.

A company like Fairfax relies on compounding to really grow its business. And even though 2017 was a little shaky from an insurance perspective, the company has made many investments that will help it grow.

For example, it announced that it was [investing US\\$250 million](#) in **Seaspan Corporation** (NYSE:SSW) through 5.5% unsecured debentures. It also received 38.5 million warrants, which gives Fairfax the right to buy Seaspan shares at \$6.50 any time it wants over the next seven years.

Currently, shares of Seaspan are trading at US\$6.62. If nothing else, Fairfax could sell all the shares and earn a small profit of US\$4.8 million. But it obviously won't. It sees an opportunity to expand its

holdings in the shipping business. “We see a long runway here where the U.S. starts moving up,” Mr. Watsa said. It could be a smart play if the economy remains strong.

Ultimately, Fairfax is a diversified borderline conglomerate. It gets the cash it needs to make investments by offering insurance products to the average person. And most of the time, it brings more in than it needs. That creates opportunities to invest in major acquisitions.

No one will ever be a true Warren Buffett; he’s far too unique. But in Canada, Watsa is one of the closest people there is to being Buffett. Investing alongside him is a great way to boost your portfolio.

CATEGORY

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Author

jaycodon

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