Q3 2013 Earnings Call

Company Participants

- Dave Bonham, CFO
- Eric Salsberg, VP, Corporate Affairs & Corporate Secretary
- Prem Watsa, Chairman and CEO

Other Participants

- Howard Flinter, Analyst
- Paul Holden, Analyst
- Sachin Shah, Analyst

Presentation

Operator

Good morning. Welcome to Fairfax's 2013 Third Quarter results conference call.

(Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect. Your host for today's call is Prem Watsa, with opening remarks from Eric Salsberg. Mr. Salsberg, please begin.

Eric Salsberg {BIO 1552007 <GO>}

Good morning. Welcome to our call to discuss Fairfax's 2013 Third Quarter results. This call may include forward-looking statements. Actual results may differ, perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are cited under risk factors in our Base Shelf Prospectus, which is being filed with the Canadian securities regulators and is available on SEDAR. I'll now turn the call over to our Chairman and CEO, Prem Watsa.

Prem Watsa {BIO 1433188 <GO>}

Thank you, Eric. Good morning, ladies and gentlemen. Welcome to Fairfax's Third Quarter conference call. I plan to give you some of the highlights and then pass it on to Dave Bonham, our CFO, for additional financial details.

Our insurance companies are doing very well, with a combined ratio of 93.4% in the Third Quarter, and 93.9% in the first nine months of 2013. We continue to be soundly financed, with quarter-end cash and marketable securities at the Holding Company of $1.1 billion. However, we were affected in the quarter with mark-to-market losses on bonds because of rising interest rates in the quarter and a mismatch in our equity portfolios between our common stocks and our hedges.

The Russell 2000 Index, used for much of our hedging, was up about 10%, while the S&P 500 index was up about 5%. Our common stock portfolios were up in the 6% range, not dissimilar to the S&P 500, but significantly less than the Russell 2000. Our long-term performance, as you know, has been in excess of most indices.

As you know, on a quarterly basis, we get fluctuations in our hedging. But over time, it has been very effective, and we expect the mark-to-market losses in this quarter to reverse over time. In the meantime, we continue to be protected from a significant decrease in the equity markets.

Our insurance and reinsurance businesses continue to expand profitably. Net premiums written by the Company's insurance and reinsurance operations in the Third Quarter of 2013 increased by 3.9%. As I said, the combined ratio for our insurance and reinsurance operations in 2013 was 93.4% for the Third Quarter and 93.9% for the first nine months.

At the subsidiary level, the percentage increase in net premiums written in the Third Quarter, compared to the Third Quarter 2012, and the combined ratios were as follows -- OdysseyRe, a 7% increase in net premium, with a combined ratio of 87.6%; Crum & Forster, 1.8% increase in net premiums, 99.3% combined ratio; Northbridge, 1% increase in the net premium, 101.5% combined ratio; Zenith, 12.4% increase in premium with a combined ratio of 96.8%; and Fairfax Asia, a 1.3% increase in net premiums and a combined ratio of 80.9%.

During 2013, many underwriting initiatives have been implemented, but I wanted to highlight the progress of a couple of companies. Zenith, which has demonstrated many times over the years its ability to manage the underwriting cycle has done it again -- cut premiums during the soft market years, 2008 to 2010; combined ratios for them, because of the lesser premium, has increased, driven by higher expense ratios; others, participants, competitors have entered the markets to grow their business significantly.

As the industry's underwriting loss increases, prices begin to increase, reserves develop, and peer companies exit the industry, which is what is happening today. Rates continue to increase and Zenith continues to grow its exposure base. Zenith cut its premium base from $1.1 billion to about $450 million, when we bought it in 2010. It now writes approximately $700 million, and it's rising. Over time, I have no question it will write more than $1.1 billion.

Although Crum & Forster's gross premiums written remain flat for the first nine months of the year, its more profitable specialty business was up almost 11%, while its standard lines business was down 33%. This has led to a 2.5% improvement in their combined ratio year over year.

Fairfax Brazil, a start-up in 2010 with zero premium, has built a first-class operation over the last three years, with approximately 60 people. For the nine months of this year, the company has written $115 million gross, $48 million net at a combined ratio approaching 100%. We expect Brazil to be a contributor to our overall underwriting profitability well into the future under Jacques Bergman and Bruno Comargo's leadership.

Odyssey and Fairfax Asia, of course, continue to hit the ball out of the park, with excellent combined ratios. We continue to grow, depending on the company. As we have said before, very low interest rates and the reduced reserve redundancies mean there's no place to hide for the industry.

Combined ratios will have to drop well below 100% for the industry to make a single-digit return on equity with these low interest rates. While the short term is always tough to predict, fundamentals, we think, will eventually play out.

Now, in terms of the investment area, net investment losses of $828.6 million in the Third Quarter of 2013 consisted of the following -- please note table on page two of our press release. Net losses on equity and equity-related investments of $478 million was after a $816 million net loss on our equity hedge. Because of the mismatch between the Russell Index and our portfolios, we expect the trends to reverse over time.

This happened before in the Fourth Quarter of 2011. The realized loss of $577 million on our equity hedges was due to the sale of common stocks and, consequently, a permanent reduction in our hedges, and also the reduction of our hedge ratio to our target 100%. On a year-to-date basis, our net equity losses, after our equity hedge, was approximately $300 million.

As we have mentioned in our annual meetings, annual reports, and quarterly calls, with IFRS accounting, where stocks and bonds are at market and subject to mark-to-market gains or losses, quarterly and annual income will fluctuate significantly and will only make sense over the long term.

Because of rising interest rates in the quarter, we had $215 million in unrealized mark-to-market bond losses, a majority of which are in munis in short-buy Berkshire Hathaway. We consider these unrealized bond losses as fluctuations and expect them to reverse over time. Our muni bond portfolio was, as you know, was mainly acquired in the last quarter of 2008 at an after-tax yield of 5.79%.

The core inflation continues to be at or below 1% in the United States and Europe, levels not seen since the 1950s. This is in spite of QE1, QE2, and QE3. Our CPI-linked derivatives, however, are down 76% from our costs and are carried on our balance sheet at $130.5 million, even though they have almost eight years to run.

Our CDS experience comes to mind. When you review our statements, please remember that when we own more than 20% of a company, we equity account; and above 50%, we consolidate, so that mark-to-market gains in these companies are not reflected in our results.

Let me mention some of these gains. As you can see on page 13 of our quarterly report -- that's page 13 of our quarterly report -- the fair values of our investment in associates is $1.752 billion versus a carrying value of $1.409 billion, an unrealized gain of $343 million not on our balance sheet. Also, we own 75% of Thomas Cook, 74% of Ridley, which are consolidated in our statements.

Unrealized gains on market values as of October 29, 2013, on both these positions, is approximately $146 million. That's total unrealized gains, not reflected on our balance sheet, is $490 million.

Finally, Euro Properties, an investment we made in an exceptional Greek REIT with outstanding management, where we have increased our investment through their rights issue, has another unrealized depreciation of $141 million as of October 29, 2013, and that also is not included in our balance sheet.

So when you add all of that, we have a total of $631 million of unrealized gains that are not on our balance sheet. Of course, all of this works out in the long term, so take these mark-to-market fluctuations as just that -- fluctuations that will have no impact in the long term. The worst mark-to-market loss we've had was in the Fourth Quarter of 2011, of $915 million, again, when the Russell 2000 significantly outperformed the S&P 500.

As I've said before, the Company held in excess of $1.1 billion of cash, short-term investments and marketable securities at the Holding Company level at September 30, 2013. We continue to be approximately 100% hedged in relationship to our equity and equity-related securities, which include convertible bonds and convertible preferred stock.

We continue to be very concerned about the prospects for the financial markets and the economies of North America and Western Europe, accentuated, as we have said before, by potential weakness in China. As we have said now for some time, we believe there continues to be a big disconnect between the financial markets and the underlying economic fundamentals.

As of September 30, 2013, we have over 30% or $7.2 billion in cash and short-term investments in our portfolio to take advantage of opportunities that come our way. As a result, in the short term, our investment income will be reduced.

Now, I would like to turn it over to Dave Bonham, our CFO, so he can give you some more information on the underlying financials. Dave?

Dave Bonham {BIO 15243784 <GO>}

Thank you, Prem. First, I'll focus on Fairfax's consolidated results for the Third Quarter of 2013. Then, I'll move on to the operating company results, and finish with the consolidated financial position.

For the Third Quarter of 2013, Fairfax reported a net loss of $572 million, or a net loss of $29 per share on a fully diluted basis. That compares to the Third Quarter of 2012 when we reported a net profit of $33 million, or net earnings of $0.84 per share on a fully diluted basis.

Year to date, the Company reported a net loss of $568 million. That translated into a loss of approximately $30 per diluted share in the first nine months. That compares to net earnings of $125 million in the first nine months of 2012, or approximately $3.80 per fully diluted share.

Fairfax's underwriting results have shown significant improvement in the Third Quarter and first nine months with our insurance and reinsurance operations reporting combined ratios of 93.4% and 93.9%, and underwriting profits of $105 million and $275 million during those respective periods. That's a year-over-year increase in our underwriting profit of $33 million in the Third Quarter and $154 million in the first nine months of 2013.

In the Third Quarter and first nine months of 2012, we reported combined ratios of 95.5% and 97.2%, and underwriting profits of $72 million and $121 million. So that improvement, representing about 2percentage points on the quarter-to-date and 3percentage points on the year-to-date combined ratio, principally reflects increased net favorable development of prior year's reserves, partially offset by slightly higher catastrophe losses in 2013.

In terms of reserve development, we experienced $86 million and $228 million of net favorable development in the Third Quarter and first nine months of 2013. That benefited our combined ratio by approximately 5 combined ratio points in each of those periods.

That's a little bit more than double the amount of net favorable development we experienced in the Third Quarter and first nine months of 2012. Excluding the benefit of net favorable development, our accident year combined ratios were 98.8% and 99% in the Third Quarter and first nine months of 2013, and that compared to 97.9% and 99.3% in the Third Quarter and first nine months of 2012.

Current period catastrophe losses increased modestly in 2013 relative to 2012 and, in the Third Quarter of 2013, amounted to just over $74 million, adding 4.7 points to the Third Quarter combined ratio. In the first nine months of 2013, catastrophe losses amounted to $218 million and added just about 5 points to the combined ratio.

Third-quarter catastrophe losses of $74 million were principally comprised of the impacts of the Toronto floods affecting Northbridge and OdysseyRe, with consolidated losses of $28 million; the Germany hail storms, primarily affecting OdysseyRe, with consolidated losses of $17 million; and an additional $15 million of reserves in the Third Quarter that related to the Second Quarter Alberta flood event.

On a year-to-date basis, that brings our catastrophe losses on the Alberta flood up to $67 million, primarily at Northbridge and OdysseyRe. Our underwriting results in the first nine months also included catastrophe losses of approximately $29 million, stemming from the central European floods.

As mentioned by Prem already, net premiums written by our insurance and reinsurance operations increased in the Third Quarter and first nine months of 2013 by 3.9% and 3.7%. The 3.7% increase is prior to giving effect in the first nine months of 2013 to two unearned premium portfolio transfers at OdysseyRe related to a specific quota-share reinsurance contract. I wanted to note for you that page 53 of our Third Quarter interim report contains a detailed discussion of these transactions, including their impact on OdysseyRe and Fairfax.

Now, turning to our operating company results, starting with OdysseyRe. In the Third Quarter and first nine months of 2013, OdysseyRe reported an underwriting profit of $84 million and $258 million, and combined ratios of 87.6% and 85.6%. Underwriting profit in the Third Quarter of 2013 was slightly lower year over year, reflecting higher catastrophe losses.

Underwriting profit in the first nine months of 2013 increased by about $26 million, and that reflected increased net favorable development, partially offset by increased catastrophe losses. Catastrophe losses in the Third Quarter and first nine months of 2015 (sic; see previous comment "2013") of $50 million and $138 million were principally comprised of the Germany hail storms and flooding in Toronto in the Third Quarter, and the Alberta floods and the central European floods in the first nine months of 2013.

OdysseyRe's combined ratio in the Third Quarter and first nine months included the benefit of $26 million, or 4 points, and $80 million, or 5 points, of net favorable development, principally related to favorable emergence on prior year's catastrophe losses. OdysseyRe wrote $730 million of net premiums in the Third Quarter of 2013, up from $682 million in the Third Quarter of 2012, an increase of 7%, or $48 million, principally reflecting increased writings of US crop insurance.

Moving on to Crum & Forster. Crum & Forster's underwriting results improved in the Third Quarter of 2013, with the improvement even more pronounced in the first nine months of 2013, on lower operating expenses, higher net premiums earned, lower catastrophe losses, and the absence of net adverse reserve development in 2013.

Crum & Forster reported underwriting profit of about $2 million in the Third Quarter and an underwriting loss of about $3 million in the first nine months of 2013. That compared to underwriting losses of $4 million and $26 million in the Third Quarter and first nine months of 2012. Current period catastrophe losses had a nominal impact on Crum & Forster's combined ratios, which were 99.3% in the Third Quarter and 104% in the first nine months.

Net premiums written by Crum & Forster increased by 1.8% in the Third Quarter of 2013. That primarily reflected a shift towards more specialty lines of business and away from standard lines of business, primarily in the areas of workers' compensation where pricing was considered inadequate.

Turning to Zenith. Zenith reported significant improvements in its combined ratio, which decreased from 114.7% and 116% in the Third Quarter and first nine months of 2012, to 96.8% and just over 100% in the Third Quarter and first nine months of 2013.

The improvements reflected the following -- year-over-year decreases of 9.4 and 8.7 points in the accident year loss ratios in the Third Quarter and first nine months of 2013, and that reflected earned premium price increases that were in excess of estimates of loss trends. Secondly, net favorable development to prior year's reserves of 4.6 and 3.7 points in the Third Quarter and first nine months of 2013. That development primarily relate to the 2012 accident year.

Finally, decreases in the expense ratio of 3.9 and 3.4 points in the Third Quarter and first nine months of 2013, and that was as a result of 11% and 13% increases in net premiums earned year over year. Net premiums written by Zenith of $144 million and $574 million in the Third Quarter and first nine months of 2013 increased year over year by 12% and 13% reflecting premium rate increases.

Northbridge's combined ratio experienced a slight deterioration from 100.7% in the Third Quarter of 2012 to 101.5% in the Third Quarter of 2013, but improved from 103.6% in the first nine months of 2012 to 100.8% in 2013. In both the Third Quarter and first nine months of 2013, Northbridge's underwriting results reflected increased net favorable development of prior year's reserves, partially offset by higher year-over-year current-period catastrophe losses.

Northbridge's combined ratio included the benefit of net favorable development across most accident years and lines of business of $45 million, or 18 points, in the Third Quarter of 2013 and $108 million, or 15 points, on a year-to-date basis. That compared to net favorable development of $24 million, or 10 points, in the Third Quarter of 2012, and $51 million, or 7 points, in the firsts nine months of 2012.

Catastrophe losses in the Third Quarter and first nine months of $22 million and $56 million related to the flooding in Alberta and Toronto. These two events together added approximately 7 points to the combined ratios in the Third Quarter and first nine months of 2013. In contrast, catastrophe losses in the Third Quarter and first nine months of 2012 were significantly lower, approximately $9 million and $15 million, adding 3.3 and 2 points to the combined ratios during those respective periods.

After adjusting for the impact in the first nine months of 2012 and 2013 of the inter-company unearned premium portfolio transfers between Northbridge and Group Re that we describe on page 46 of our Third Quarter interim report, net premiums written by Northbridge increased in the Third Quarter and first nine months of 2013 by 4.4% and 5.9%, when expressed in Canadian dollars, reflecting increased premium retention following the termination of that quota-share reinsurance contract and modest growth in writings at Federated Insurance, partially offset by slightly lower writings at Northbridge insurance.

Fairfax Asia's combined ratio improved from 83.2% and 87.9% in the Third Quarter and first nine months of 2012 to 80.9% and 87.3% in the Third Quarter and first nine months of 2013. On a year-over-year basis, net premiums written by Fairfax Asia increased by 1.3% and 5.2% in the Third Quarter and first nine months of 2013.

The combined ratios of the insurance and reinsurance other division improved from 102.5% in the Third Quarter of 2012 to 96.4% in the Third Quarter of 2013, and improved from 102% in the first fine months in of 2012 to 98% in the first nine months of 2013. Runoff reported pretax losses of $113 million and $256 million in the Third Quarter and first nine months of 2013, that compared to pretax profits of $13 million and $146 million in the same periods last year. The year-over-year decrease in profitability primarily related to net investment losses in 2013.

Our consolidated interest and dividend income decreased from $101 million and $336 million in the Third Quarter and first nine months of 2012, to $61 million and $273 million in the Third Quarter and first nine months of 2013. This reflected the combination of sales in 2012 of higher-yielding bonds that were replaced with lower-yielding short-term investments and the impact of sales of dividend-paying common stocks in 2013.

The Company recorded a recovery of income taxes of $212 million and $413 million in the Third Quarter and first nine months of 2013, representing effective income tax recoverable rates of 27.1% and 42.3%. The higher effective tax rate in the first nine months of 2013 primarily related to significant pretax losses in the US, where tax may be recovered at the US tax rate of 35%; and that's a substantially higher rate than the Canadian statutory income tax rate of 26.5%.

Moving to our financial position. Our total-debt-to-total-capital ratio increased to 28.6% from 25.5% at December 31, 2012, due primarily to additional debt issued, net of repurchases, in the First Quarter of 2013 and the decrease in our common shareholders equity during the first nine months. We have $183 million of OdysseyRe debt maturing in November 2013, which we funded by the issuance of debt in the First Quarter of 2013. After repayment of the OdysseyRe debt in November, on a pro forma basis, our debt-to-capital ratio is expected to be approximately 27.5%.

Now, I'll pass it back to you, Prem.

Prem Watsa {BIO 1433188 <GO>}

Thank you, Dave. Now, we're happy to answer your questions. Please give us your name, your company name, and try to limit your questions to only one, so that it is fair to everyone on the call. Okay, Audra, we're ready for the questions.

Questions And Answers

Operator

(Operator Instructions)

Sachin Shah, Albert Fried.

Q - Sachin Shah {BIO 15433972 <GO>}

Just wanted to find out, in regards to the BlackBerry offer, wanted to see if there was any update? I believe the deadline's coming up on Monday, so just wanted to see where things stood? If there was a chance for a possible extension, or just wanted to get a little of understanding on that situation? Thank you.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you, Sachin, for your question. As you know, we cannot make any comments on BlackBerry as we have a bid for the company. So we really can't make any more comments on it until, as you say, November 4. Thank you for your question. Audra, next question, please.

Operator

(Operator Instructions)

Paul Holden, CIBC.

Q - Paul Holden {BIO 6328596 <GO>}

Wanted to ask you about Northbridge. If you look at the accident year combined ratio for Northbridge, I mean, 2013 has been another tough year. Granted some of that has been related to cats, but I think even if you factor that in it's still not a great year relative to your other underwriting businesses.

You mentioned that competitive conditions remain challenging, so that's probably fair. A three-part question for you on Northbridge. A, do you see any early signs that competitive conditions in Canadian P&C are easing, i.e. are rates starting to firm following 2013 cat events? B, are there Company-specific actions that you're taking that could lead to an improved accident year combined ratio in 2014? C, would you ever consider trading this asset for a higher margin business in a different market?

A - Prem Watsa {BIO 1433188 <GO>}

Thank you, Paul. First of all, yes, the accident year combined ratios are higher, I think ran at 115%, but you'll notice there was -- we have very significant reserve redundancies. Our reserve -- our accident year combined ratios are high, but on the other side, our redundancies are also high. So we're very careful in our reserving and over time that accident year combined ratio will reflect the underlying conditions. We're very, very careful in terms of reserving. We want to be sure that the reserves are appropriate.

In terms of your first question, in terms of the industry changing, Canada's always lagged the United States. The US first moves up and then Canada follows. We have had the catastrophes, the Calgary floods, the Toronto storms. Rates are not going down. They're going up some. We think it will improve over time. This applies to the United States, too.

Of course in some areas like, I was talking about Zenith, workers' compensation, many, many companies in the United States have taken reserve increases. Big reserve charges have been pretty well in the course of being put into runoff, and so the price increase that Zenith enjoys is in the 15% area. You had to have not written a lot of business during the soft markets to be able to take advantage, like Zenith is doing today. We think that will follow in Canada, too.

In Canada, we have our Northbridge is segmenting the markets and being more focused on certain target markets, and so we think over time our combined ratios will be well below 100% under Sylvie Wright's leadership. As far as selling any of our companies, Northbridge, Fairfax Asia, Odyssey, any of them, Brazil, we've said specifically, Paul, clearly in writing in our annual report, none of our companies are for sale. Any of our subsidiaries, insurance subsidiaries are not for sale, we are going to hold them forever. Secondly, Fairfax itself is not for sale. I've said it very clearly to companies. I have in my voting interest, I consider it to be a controlling interest, and I said to our shareholders that if someone comes in with a price twice today's price, I wouldn't sell. That's enough said for -- this is our 28th year. I've said that four or five times over that time period.

Paul, yes, none of our companies is for sale. Because of that, we enjoy a huge amount of loyalty from our people. I've said this also before. The presidents of our companies, who have run our subsidiaries, we've never lost one president, never lost one president who has been successful in our operation. We've had retirements, early on in our 28 years, we've had for competence. We've had people that would leave us, but people who have been successful have been with us for a long time. Andy Bernard, the better part of 20 years, Brian Young, the better part of 20 years, on and on and on. Sylvia Wright's been with us the better part of 20, also.

For all those reasons, it's a very big competitive advantage, we think, to have our subsidiaries owned forever. That it will never be sold, so our presidents can look after the operations not having to look back and see if the head office will decide to sell them because of they have a year or two of poor performance. I want to be very specific. Thank you, forking for asking that question, Paul. I want to be very specific to all our shareholders. Next question.

Operator

Howard Flinter, Flinter and Company.

Q - Howard Flinter

A few years ago we pondered what kinds of underwriting ratios industry-wide would generate enough returns to attract competition. In the recent week, I've seen three companies, including Chubb with historically respectable underwriting disciplines, underwrite in the, say, 85% to 89% rate and their annualized rates of return on moderately leveraged equity are between 8.5% and 11%, well 8.5% and 12%. So even 85% to 89% doesn't generate a high enough return to attract a whole lot of competition. 8.5% or 9% or 10% is not really exciting.

A - Prem Watsa {BIO 1433188 <GO>}

Yes.

Q - Howard Flinter

That indicates to me, I'd like you to comment, that indicates to me there's still plenty of room on the upside in rates. Is that correct?

A - Prem Watsa {BIO 1433188 <GO>}

That's not a bad comment, Howard. The only problem with our industry, over long periods of time hasn't made good returns on equity. I think Chubb or other companies that have been in business for 25 years, if you look at their returns, they've been in that 10% area, plus, minus, unlike other industries, including the S&P 500, which has had 14% and 15% return on equity. But your point's well taken. That's why with these low interest rates you have to have low combined ratios like combined ratios much below 100%, to even have any chance of making a 10% return. You say 8.5% to 11%, making a 10% return. Every time a bond, a five-year bond matures, and mostly the investment portfolios of insurance companies are invested, like a five-year bond.

Q - Howard Flinter

Yes. They're pretty short.

A - Prem Watsa {BIO 1433188 <GO>}

Every time it matures, Howard, the investment income drops.

Q - Howard Flinter

That's right.

A - Prem Watsa {BIO 1433188 <GO>}

So this is going to continue, and the pressure to make a return will be very significant. To get a really hard market, in our experience over the last 30 years, is that you need to have an event. You need to have something that happens either on the liability side, on the insurance side, obviously, a big catastrophe or something like that. Or, on the other side are the investment portfolios, like if you have spreads suddenly widening. Like we have very few corporate bonds today.

One of the reasons is the spreads are very tight, and so if spreads widen, people are reaching for yield, not only in the insurance business but all over the United States and Canada and perhaps the world. As these lower interest rates prevail. Well if spreads widen significantly, there will be losses in bond portfolios and so -- and I mentioned our CPI deflation swaps. Inflation is very low today, in spite of QE1, QE2, QE3 and lots of fiscal stimulus, inflation is in that 1% area. The most recent number in Europe was 0.7%. So if you -- and it takes some time before deflation sets in.

Q - Howard Flinter

Yes.

A - Prem Watsa {BIO 1433188 <GO>}

We continue to, Howard, worry about deflation. Of course, if that happens we don't do too badly because of these swaps that we have. We've protected ourselves for some time from all of these events. It doesn't show in our statements, but we're long term in building value.

Q - Howard Flinter

Monetary velocity in the United States is the lowest on record. The record being roughly 110, 115, 100 years, I forget the exact period.

A - Prem Watsa {BIO 1433188 <GO>}

I think that's right, Howard, yes.

Q - Howard Flinter

That is deflationary in itself. One other event I was going to add is, if 2014 has a downward year in the stock market, that could be the event that you're pondering.

A - Prem Watsa {BIO 1433188 <GO>}

That would -- that's the sort of environment we're protecting ourselves against, Howard. Of course, no one knows what will happen in 2014.

Q - Howard Flinter

Exactly.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you very much for your comments, Howard. Audra, next question.

Operator

Thank you. There are no further questions at this time.

A - Prem Watsa {BIO 1433188 <GO>}

Audra, if there are no more questions, thank you, all, for joining us on this call. We look forward to presenting to you again after the next quarter. Thank you, Audra.

Operator

Thank you. Today's call has concluded. Thank you for participating. Please, disconnect your phone line at this time.