3 Reasons to Sell IGM Financial Inc.

Description

After nearly a decade of the stock going sideways and only a mediocre history of raising the dividend, I bit the bullet and punted my position in **IGM Financial Inc.** (TSX: IGM). My return was approximately 5% annually, which was mostly made up of the company's generous dividend, which averaged a yield of over 4%. Currently, shares pay out $0.54 quarterly, good enough for a 4.8% yield.

It wasn't a disaster, but my money certainly could have been put to better use. At least it was only a small position.

Why did I decide to sell, especially after the stock has declined almost 15% this month alone? There was one piece of breaking news that every investor in this stock has to be worried about. That, combined with a couple other factors, made the decision easy. Let's take a closer look.

The end of trailer fees?

IGM Financial is the parent company of Investors Group, one of Canada's largest wealth managers. Its army of nearly 5,000 financial consultants offers the average Canadian financial services ranging from mortgages to insurance to investments, the latter of which is mostly through high fee mutual funds.

Up until recently, this didn't concern me. Yes, there were certainly cheaper options than the company's mutual funds — which are some of the most expensive in the business — but the average consumer who goes to Investors Group doesn't care. They go because the agent holds their hand and tells them exactly what to do. That's the value the company offers, and there are people out there who are willing to pay.

Now, the model seems like it's in serious trouble. Rumours are swirling that regulators are looking at banning trailer fees, which are an ongoing fee built into mutual funds that compensates the advisor for assets under management. If trailer fees go away, Investors Group will lose a lot of money, and potentially, a lot of its agents.

I cannot understate the effect the loss of trailer fees will have to the business. It's a really big deal.

The rise of ETFs

Plus, consumers are getting educated about the benefits of taking care of their own investments. Most will continue to take the passive route by using ETFs, while some will start choosing individual stocks.

But mostly, Canadians are sick of paying such high mutual fund fees. Studies have shown that Canadians pay the highest fees in the developed world, much to the delight of the companies that offer them. It appears, however, that the party is pretty close to ending.

The risk of Canadian investors moving away from actively managed mutual funds to passively managed ETFs is a trend that's just beginning. Competitors abound, including online stock brokerages, which are very vocal in implementing investor-friendly moves like lower commissions and free trades for certain ETFs.

The threat of robo-advisors

They're not nearly as cool as Robocop, but robo-advisors are primed to change the way many people get their financial advice.

For a lot of people, setting up a passively managed portfolio of ETFs is simple. All they want is to put away money for retirement and leave it at that. They don't want to worry about the kinds of things active investors worry about; they just want to set it and forget it. In a previous age, these customers would be the bread and butter of IGM's business.

Now? These customers are comfortable with technology, and are willing to use software that's specifically designed to choose an appropriate asset allocation. The process takes just a few minutes, and the cost is virtually nothing, especially when compared to mutual funds with a 2.5% annual management fee. It's just another example of a threat to IGM's existing business.

When your main source of income gets challenged, it's going to be difficult going forward. That's why I sold IGM Financial, and you should, too.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:IGM (IGM Financial Inc.)

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