



IGM Financial Inc.: Give Yourself the Gift of a 4.9% Yield

Description

In 1924, RCA said the phonograph was the first ever “gift that keeps on giving.” With respect to those who came up with one of the best ad slogans of all time, I think the phonograph might not be the best example of that.

Instead, I'd vote for dividend stocks. Not only do they tend to go up in value, but they also pay an income stream that is usually more valuable as time goes on. Sure, there are always memorable blow-ups, but for the most part, if a company pays a dividend, it's a little more secure than those that don't reward shareholders.

One stock that pays a generous dividend is **IGM Financial Inc.** ([TSX: IGM](#)), one of Canada's largest money management companies. Through an army of nearly 5,000 Investors Group consultants, the company offers mutual funds, insurance, mortgages, and financial planning services to high net worth Canadian households.

The company's Mackenzie Financial subsidiary also provides mutual funds to more than 30,000 financial advisors across Canada. And for the most part, Mackenzie's funds are pretty good. Morningstar has ranked more than 80% of the company's funds as at least three stars or better, which is significantly better than the industry average. Plus, it helps to have nearly 5,000 salespeople in house pushing the company's own funds.

As most active investors already know, mutual funds are kind of a crummy deal for the average person who isn't too interested in picking individual stocks. Management fees can reach up to 3% on some actively managed funds, averaging around 2%. Mostly because of these fees, actively managed mutual funds tend to underperform the overall stock market by 1-2% a year.

Instead, passive investors should opt for exchange traded funds (ETFs). They offer the same diversification as a mutual fund, are still easy for an uneducated investor to buy, and will get very close to matching the return of the overall market. They're a pretty good deal for a lot of people.

While it's true that ETFs offer lower fees, mutual fund naysayers are forgetting one valuable thing investors are getting out of a relationship with an advisor who sells mutual funds — advice.

Left to their own devices, many investors wouldn't last past one downturn. They'd see a 25% decline in the value of their portfolio, sell everything, and swear off stocks forever. A financial advisor can talk somebody off the proverbial edge, keeping them invested. Investors who were talked out of selling during the lows of 2009 are probably pretty glad they got that advice.

There is an alternative to the mutual fund compensated advisor, and that's the fee-only financial advisor. For a flat fee of anywhere from \$500-\$2,000, investors get a personalized investment plan, complete with an ETF portfolio, tax planning advice, and plenty more.

For some investors, this is a good deal. But for others — especially those just starting out — it isn't. Some people won't want to spend hundreds of dollars upfront. Others want to know that they can call up their advisor whenever they want without having to pay additional fees. And fee-only advisors cater to folks who already have a decent handle on their finances. Investors Group consultants tend to get folks who are less experienced with their investments. Plus, fee-only advisors don't have the marketing clout that can match a company with a market cap of \$13.2 billion.

Add all this up, and I think that IGM Financial has a stronger moat than the market gives it credit for.

Plus, management seems pretty bullish too, since it recently hiked the company's dividend 5%. That gives the stock a 4.9% yield. IGM also boasts net profit margins of more than 25%, and trades at just 14 times earnings, which is a pretty reasonable valuation. ETFs have soared in popularity since 2009, yet the company continues to grow profits every year.

In today's world of low interest rates, it's hard to find a consistent 4.9% payer. This year, give yourself shares of IGM Financial, the true gift that keeps on giving.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:IGM (IGM Financial Inc.)

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Date

2025/07/26

Date Created

2014/12/22

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