Risk Takers: Forget CI Financial Corp. and Buy This Financial Stock Instead

Description

CI Financial Corp. (TSX:CIX), one of Canada's largest asset managers, just got its target price lowered by a couple of dollars to $27 by Desjardins. Down 17.8% so far in 2016, it's at odds with Canadian financial stocks as a whole—**iShares S&P/TSX Capped Financials Index Fund** is up 13.5% year-to-date—which are having a pretty good year in comparison.

They say you can't fight the trend.

If you don't own CI Financial, perhaps you should take a pass right now and consider one of its competitors instead. And if you do, well, long term, CI Financial should do just fine. I recently called it one of *The 3 Best Stocks for a Financial Portfolio*. So, although its trend isn't your friend at the moment, if you're thinking three to five years out, the stock's downturn might make for an opportune time to buy; it hasn't traded this low in over three years.

But for the purposes of this article, I'm speaking to risk takers, not conservative investors.

The stock I have in mind is ready for the scrap heap (and has been for some time, in the eyes of many). I'm talking about **AGF Management Limited** (TSX:AGF), the one-time home for famed value investor Charles Brandes. But that was many moons ago. Brandes left AGF in June 2002, taking with him a significant amount of assets. At the time AGF had a market cap of $2 billion—five times its value today.

AGF's fall from grace is not a new story.

But now there might actually be a ray of hope flickering over its business, and, at $5 a share, I simply can't avoid talking about the potential upside from such a speculative bet.

The story starts last November when AGF acquired 51% of Boston-based FFCM LLC for $7 million. Managing $1.3 billion in assets, LLCM also had an ETF business called QuantShares run by BillCarey, a former F-Squared Retirement Solutions executive. It wasn't too hard to figure out what AGFhad in mind. Less than a year later it filed a preliminary prospectus to launch four actively managedETFs as well as three tactical funds investing in other ETFs.

Suddenly, AGF was more than a mutual fund company that was hopelessly behind the times.

Another thing happened this year that's changed the narrative of AGF. It's stemmed the asset defections. Net redemptions in the third quarter ended August 31 were down $112 million to $303 million—a 27% decline year over year. Earlier this year, CEO Blake Goldring suggested net redemptions may soon be a thing of the past.

Is this wishful thinking? Perhaps.

But here's why I believe these two storylines make this $5 bet anything but crazy.

Hindsight being what it is, AGF probably should have sold itself years ago when valuations for mutual fund companies were significantly higher. A decade ago, CI Financial could have gotten six times revenue or perhaps more from a willing buyer; today, the multiple is about half that amount. Heck, AGF was trading at 3.6 times revenue in 2006; that's now down to one times revenue.

However, by accomplishing the two points mentioned earlier, AGF is better positioning itself to be acquired in the future.

Think about it.

BlackRock or another company that markets both mutual funds and ETFs will be far more interested in AGF now that it's getting into the ETF game and its mutual funds aren't sucking so bad.

I don't know if AGF will still be independent in 10 years, but what I do know is that paying $5 and change to find out isn't much of a gamble for anyone who's got the money to lose.

To me, the upside at this point far outweighs the downside.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AGF.B (AGF Management Limited)
2. TSX:CIX (CI Financial)

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