



Avoid the Siren Song of This Massive Canadian Holding Company

Description

Power Financial Corp. (TSX:PWF) is a Canadian diversified management and holding company with operations in Canada, the U.S., and Europe. The company owns a stake in Parjointco N.V., **Great-West Lifeco Inc.** ([TSX:GWO](#)), and **IGM Financial Inc.** ([TSX:IGM](#)).

Upon first glance, it looks like the company is an undervalued gem with a fat 5% dividend yield. But I think investors should exercise extreme caution as the nice yield and cheap valuation could just be a siren song that'll lead you in the direction of a value trap.

While this holding company seems to be a one-stop shop for an internationally diversified group of financials, I would strongly recommend investors do their homework, as they may not know exactly what they're getting into.

Let's dig deeper into what the company actually owns a stake in and the associated risks.

Actively managed mutual fund businesses on their way out?

While Great-West Lifeco and the insurance products seem promising, the company is exposed to a financial company called IGM Financial which operates under its two banners: MacKenzie Investments and Investors Group.

These businesses profit from charging hefty fees to clients for its actively managed mutual funds. I've been a bear on IGM Financial, and mutual fund businesses for quite some time, as I believe the general public is becoming more financially literate, and I don't think the average investor would opt for expensive mutual funds with the rise in popularity of low-cost ETFs.

Many investors may not know the true cost of a 2.5% management expense ratio (MER), but Canadian securities regulators may put forth changes which require mutual fund sellers to clearly state (in plain English) how much a particular mutual fund will really cost an investor.

If the average investor really knew the costs, I would bet that they would put actively managed mutual funds in the rear-view mirror.

What else is under the hood?

Power Financial owns a 50% stake in Parjointco N.V. — a Dutch holding company which owns a stake in Pargesa Holding S.A., which in turn owns a stake in Groupe Bruxelles Lambert.

Group Bruxelles Lambert is a Belgian holding company which owns stakes in various industries, such as mineral-based specialty solutions, cement, aggregates, concrete, wines, spirits, sportswear, oil, gas, and alternative energies.

That's a complicated umbrella of businesses, isn't it? While many of these businesses may seem to offer exposure to interesting businesses across many industries located in foreign markets, I don't believe it'll be able to offset the headwinds from the company's huge stake in IGM Financial.

For those reasons, I'd just avoid Power Financial altogether, as IGM Financial is likely to drag Power Financial into the abyss over the next few years.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:GWO (Great-West Lifeco Inc.)
2. TSX:IGM (IGM Financial Inc.)

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