



This Massive Canadian Holding Company Has a Diversification Problem

Description

Diversification is a basic and essential technique to reduce risk; however, there are drawbacks if an investor or a company abuses this technique. If overused, diversification could actually add risk rather than eliminate it, as it is intended to do.

One massive business that's suffering from over-diversification

With conglomerates, it's incredibly easy to "di-worsify" your portfolio with just a single stock. Consider **Power Corporation of Canada** ([TSX:POW](#)): a massive diversified international holding company which owns stakes across many unrelated sectors. Unlike other superior conglomerates, Power Corp. owns stakes in some very mediocre businesses that are starting to lose their lustre in a hurry. Think newspapers and mutual fund companies, both of which appear to be on the long-term downtrend.

Power Corp. is a complicated umbrella of many businesses, and a lot of these businesses aren't wonderful like holdings in the portfolio of **Berkshire Hathaway Inc.**

Graeme Rolstan, a small shareholder of Power Corp., recently sent a letter urging management to sell ~\$10 billion worth of non-core assets.

"Power Corp. is invested in too many unrelated sectors, with some portfolio holdings increasing risk rather than diversifying it." said Mr. Rolstan, whose letter was reviewed by **Reuters**.

This is a classic case of di-worsifying and I think Power Corp. will continue to be a drag over the long term because of its glut of unrelated businesses, which are doing more harm than good to the behemoth that is Power Corp.

Mr. Rolstan served as chairman of Performance Sports Group Ltd. and has taken an activist approach in the past by pushing management teams to make moves to maximize long-term value for shareholders. I believe Mr. Rolstan is right on the money, and Power Corp. really needs to sell some of its unnecessary and unrelated holdings or risk becoming a laggard for the long haul.

I haven't been a fan of Power Corp. because of its di-worsified mix of holdings. The company has a

strong base, but unfortunately, it holds various businesses that would be better off sold.

Bottom line

Bigger doesn't mean better, especially when it comes to oversized, over-diversified conglomerates such as Power Corp. If activists push the management to make moves, then I believe shares could start to rally; otherwise, I expect the stock to remain a laggard, despite its recent rally from 52-week lows.

Shares of POW have only increased by ~36% over the past five years, and I believe more underperformance is likely until the di-worsification problem is addressed.

Although the dividend yield of 4.35% may be attractive to income investors, I'd look elsewhere, because you'd be lucky to achieve any sort of meaningful capital gains over the next couple years, unless activist-inspired changes occur.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:POW (Power Corporation of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/07/03

Date Created

2017/10/31

Author

joefrenette

default watermark