Stock Market Turbulence Could Batter These Wealth Management Stocks in 2018

Description

The **S&P/TSX Index** hit an all-time high of 16,421.42 on January 4 before finishing slightly lower to close the day. This is coming off a year in which the index climbed 6% on the back of a surge in the final four months of 2017. GDP growth is expected to slow to 2.1% in 2018 after a remarkable 2017 that saw the Canadian economy pick up pace from the commodity shock.

Oil had shown impressive strength to begin 2018, but some analysts are anxious that Canadian bank stocks plateaued in 2017, as I'd discussed in a previous article. U.S. tax reform saw assets prices balloon south of the border, but the bull market is now almost a decade old.

Let's look at three wealth management stocks that could suffer in the event of market turbulence in 2017. The industry continues to evolve since the Financial Crisis, and 2017 saw ETF inflows hit a record $464 billion with more investors flocking from active managed funds.

CI Financial Corp. (TSX:CIX)

CI Financial is a Toronto-based wealth management company that provides a variety of financial products and services, including exchange-traded funds, mutual funds, financial planning, and others. The stock rose 1.9% in 2017. The company released its third-quarter results on November 9.

Net income rose 3% to $140.8 million compared to $136.8 million in the prior year. Average assets under management jumped 7% to $120.3 billion from $112.2 billion at the end of Q3 2016. The company announced a quarterly dividend of $0.12 per share, representing a 4.7% dividend yield.

IGM Financial Inc. (TSX:IGM)

IGM Financial is a Winnipeg-based financial services company. The stock climbed 15% in 2017. It is a subsidiary of **Power Corporation of Canada**.

IGM Financial released its third-quarter results on November 2. The company reported net earnings of $173.4 million, or $0.72 per share, compared to $197.6 million, or $0.82 per share, in the previous year. However, IGM Financial posted record assets under management of $150 billion, which was up 5.1% year to date. It also saw a record in investment fund net sales in the third quarter — $779 million in comparison to net redemptions of $205 million in Q3 2016.

The stock offers a dividend of $0.56 per share with a 5.1% dividend yield.

Gluskin Sheff + Associates Inc. (TSX:GS)

Gluskin Sheff + Associates is a Toronto-based wealth management firm. The stock dropped 4.4% in 2017 and released its fiscal 2018 first-quarter results on November 10. Revenue was mostly flat at $28.5 million, and the company saw net income drop to $5.8 million compared to $7.3 million in the prior year. Assets under management were also largely flat at $8.9 billion.

Chief economist at Gluskin Sheff + Associates David Rosenberg recently published an article in the *Globe and Mail* that laid out his approach to investing in 2018. He stressed caution as the bull share from the American Association of Individual Investors survey jumped from 35.9% in November to 52.7% at the end of December. Rosenberg is skeptical regarding the recently-passed tax reform bill, calling it "flawed." He also pointed out the impending rollback of "central bank accommodation" that could potentially pull the rug from under asset prices looking ahead.

Suffice it to say, Rosenberg has struck a bearish note to begin the year. Investors that are apt to heed his warning should exercise caution with wealth management stocks in 2018.

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