2 Toxic Canadian Stocks I Wouldn't Touch With a Barge Pole

Description

As a value investor, I'm always on the hunt for the next bargain that the general public may be punishing. It's not at all an easy task, though there are value traps scattered around the TSX, and if you're not careful, you may find yourself buying a "cigar butt" that may have no puffs left to smoke.

Sure, it may seem like you're paying next to nothing for a particular stock, but if you're not buying quality, you could be risking the health of your portfolio by accumulating too many cigar butts.

Here are two toxic stocks that I'd avoid, no matter how cheap they get, because I believe their margins of safety are nothing more than a mirage, and their siren songs may be calling to value investors.

As the brilliant Warren Buffett once said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." So, keep quality in mind when you do your bargain hunting for some of the TSX's seemingly best "deals."

IGM Financial Inc. (TSX:IGM)

IGM Financial has a juicy 5.13% yield and trades at a 13.46 trailing P/E. It's a cheap stock, without a doubt, but over the next few years, I think the headwinds are far too great, such that I've been avoiding this stock like the plague.

The company offers a wide array of mutual funds, wealth management services, and various other financial products. You may have heard of the firms under the IGM umbrella: Mackenzie Financial and Investors Group, both of which offer investment services and mutual funds, which charge obscenely high fees that hover around the 2.8% mark.

That's a very high price to pay for seemingly average performance that's anything but commendable. Investors Group also has a very poor reputation in the past for trapping clients with deferred sales charges — something that simply isn't possible with regulators cracking down on the "shady" Canadian mutual fund industry.

With more investment instruments available to Canadian investors, there's no reason to be paying high fees for sub-par mutual funds. As the financial literacy of the average Canadian increases, they'll quickly realize that they would've been just fine with dirt-cheap index funds offered by their banks from the start.

You've probably seen the commercials by Questrade taking shots at high-fee mutual fund firms. "It's not a game. It's my retirement." Such commercials aren't just promoting Questrade's platform; they're shedding light on a major problem that Canadians have been oblivious to for far too long.

Just have a look at IGM's revenue and earnings growth over the last decade. It's pretty much been stagnant. The high-fee fund industry is dying, and IGM will likely take a huge long-term hit.

Canadian Western Bank (TSX:CWB)

Canadian Western Bank is a regional bank which has enjoyed a considerable amount of momentum of late, but before you ride the wave higher, you should know that the stock isn't even "cheap" when compared to the Big Six, all of which have higher yields and are far better value for a long-term investor.

Canadian Western Bank, as the name suggests, operates primarily in western Canada, and thus is heavily exposed to the struggling province of Alberta. Sure, the Albertan economy may be poised to enjoy a rebound in time, but it still has plenty of loans to many Albertan borrowers, many of whom are still under financial stress.

At current levels, I'd avoid Canadian Western Bank and its below-average 2.43% dividend yield, which is far below what you'll get with the 3-4.5%-yielding Big Six banks that I believe are much lower-risk plays. Sure, substantial upside still exists as Alberta gets back on the road to recovery, but I don't think the elevated risk profile is suitable for the average investor seeking to bolster the core of their portfolio.

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