This Dividend Behemoth Is Losing its Power — Avoid at All Costs!

Description

Power Corporation of Canada (TSX:POW) is a diversified financial conglomerate that may appear to be a great value proposition to new investors. The stock is dirt cheap, with a 9.22 P/E to go with its attractive 5% dividend yield. Looking at its longer-term chart, however, you'll see that the stock hasn't gone anywhere, and given the size of the behemoth, a combination of diseconomies of scale and longer-term headwinds may keep the stock depressed for a lot longer.

Sure, the yield is attractive, but after the next decade, I think that's all you'll end up with in the best case scenario!

The more likely outcome, I believe, would be a continued decline into the abyss as the company's mutual fund firms (Investors Group and MacKenzie Financial) begin to lose traction as the secular decline in the mutual fund industry begins to accelerate as Canadian regulators become more involved with commission-based investment products. These high-margin high-fee products are typically sold to prospective investors based on the magnitude of commissions that mutual fund salespeople (or "advisors") are to receive.

Once trailer fees are banned across Canada, one could only expect asset managers to crumble as investors move their money to more cost-effective investment instruments like ETFs, index funds, or robo-advisers. There's no question that there are a wealth of options available to passive investors these days, and as time goes on, one could expect technological advances to disrupt the high margins that asset managers have been able to command over the past few decades.

To offset this imminent decline in actively managed mutual funds, **Power Financial Corp.** (TSX:PWF) (a subsidiary of Power Corp.) has looked to invest in disruptive fintech firms, including robo-advisors like Wealthsimple in order to hedge itself from the gradual downfall in actively managed mutual funds.

"We at Power Financial are proud to be Wealthsimple's greatest champion as it becomes a global leader in marrying unique digital technology with great content and service," said Paul Desmarais III, senior VP of Power Financial and, most recently, chairman of Wealthsimple.

There's just one major problem with Power Financial's hedging approach, however. The company will stand to cannibalize its traditional higher-margin business and accelerate the rotation out of actively managed mutual funds.

Moreover, a “first mover” robo-advisor service like Wealthsimple will probably pale in comparison to a Big Bank’s future offering which would have the advantage of convenience for existing banking customers. Most of Canada’s Big Five banks have already doubled-down on fintech, and over the next decade, I think they’ll capture an overwhelming majority of the robo-advisory market share away from non-bank advisory firms like Wealthsimple and its ilk.

While there’s still value in the human approach to advising, especially amongst the older and wealthier clientele, there’s no question that Power Financial’s asset management firms will take a one-two hit to the chin in the form of declining year-over-year revenues as well as a gradual erosion to margins as high-fee mutual funds become less popular and cheaper in order to retain and attract investors.

Bottom line

There are other promising firms under the Power umbrella, however. The conglomerate’s overexposure to third-party asset management firms is more than enough reason to ditch the stock today. If a stable yield is what you’re after, there are far superior opportunities elsewhere, including the banks themselves if you’re keen on investing in the financial sector.

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joefrenette