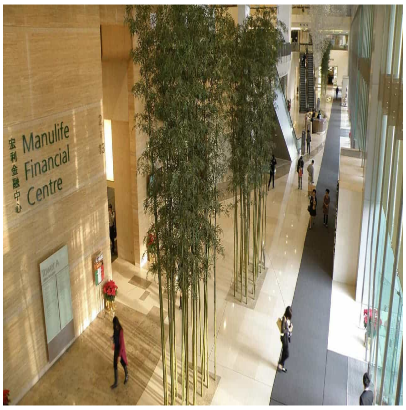

Is Manulife Financial Corp. (TSX:MFC) About to Take a Dip?

Description

While we're all about fundamental analysis here at the Motley Fool, but it can't hurt to incorporate the use of technical patterns to time entry and exit positions in a stock that we've already done our homework on.

While some fundamental analysts may shun technical analysis entirely, I think it's worthwhile for long-term retail investors to be open-minded in when it comes to the technicals. At the very least, technical analysis can serve as a supplement to the fundamentals.

Recognizing patterns in charts can be challenging; however, as patterns that develop in real-world charts are seldom as perfect as they appear in a textbook example. And much of the time, recognizing patterns can be like identifying shapes in the clouds. So, there's a degree of subjectivity when it comes to the technicals.

What's an example of a potential pattern in the works today?

Don't look now, but a bearish technical pattern called the "head and shoulders top" formation might be in the works for **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) stock.

Although it doesn't appear to be a textbook head and shoulders formation yet, it may be worthwhile to keep an eye on the name in the months ahead as shares attempt to stay above the "neckline" level of around the low $23. If it falls below $23, the sellers could take control on increasing volume, and Manulife shares might surrender the upward spike enjoyed in late 2016.

I'm no expert in the field of technical analyst, and the "head and shoulders top" pattern may never actually come to fruition, but given today's chart, investors may wish to hold off from backing up the truck on shares today in spite of their cheapness and promising longer-term catalysts.

At current levels, the stock trades at a 9.0 forward P/E, a 1.2 P/B, a 0.9 P/S and a 2.6 P/CF, all of which are substantially cheaper than the company's five-year historical average multiples of 15.6, 1.3, 1.1, and 3.3, respectively.

That's ridiculously cheap, especially when you consider the long-term tailwind of rising interest rates, Manulife's Asian expansion, and the juicy 3.73% dividend yield, which should serve as an incentive for longer-term investors.

While the bearish technical pattern may very well be a "fake out," I'd encourage to only take a partial position if you're keen on the name and its depressed valuation today. Take my interpretation of the technicals with a grain of salt, however, especially if you're a long-term investor who plans to hang onto the stock for decades at a time.

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