



## This Canadian Asset Manager Is My Top Pick in the Financial Sector Right Now

### Description

Move over **TD Bank**, **Royal Bank**, and **Scotiabank** — you simply can't match the value being offered by this Canadian asset manager today.

**CI Financial** ([TSX:CIX](#)) is one of Canada's preeminent asset management firms and has been for decades now, having been formed all the way back in 1965. However, following a string of disappointing quarters, it appears that investors have — at least temporarily — given up on the firm.

But the good news is, that's created [a terrific opportunity](#) for Foolish investors to jump in on the contrarian trade, picking up this high-quality 3.51%-yielding stock on the dip, which, as of Thursday's trading session, could be bought for less than a buck off its 52-week lows.

CI is coming off a series of what have been, for the most part, fairly significant acquisitions, including closing the purchase of both BBS Securities and Sentry Investments in addition to the acquisition of a majority stake in Australian asset manager Grant Samuel Funds Management. Those transactions will be major deals to help set the company up for a bright future — yet they also come with a hefty price tag.

In spending more \$300 million over the past three years, CI has had to partly finance those acquisitions through the issuance of dilutive common stock, while more than doubling the amount of financial obligations on its balance sheet.

However, while it's seen a sharp increase in its financial obligations, the firm maintains a conservative financial profile with a debt-to-equity ratio of just 0.52 times, well below market averages.

But adding that kind of leverage while taking on the responsibility of integrating several large-scale acquisitions is going to strike at least a little bit of fear into some of the more conservative investors out there.

However, the bigger threat as of late has been underperformance in some of the firms larger actively managed funds, which has in turn led to accelerating redemptions, as clients have increasingly been making the difficult decision to withdraw their capital from the control of the firm's portfolio managers.

Yet there are a couple of reasons why I'm willing to not necessarily look past, but accept the risk that the market is literally paying me to take with an investment in CI stock today.

One is that, without question, some of recent redemptions have had more to do with the fact that some of the clients acquired by way of its latest string of acquisitions simply want to have control over the selection of their asset manager.

The nature of asset management business is that it is heavily dependent on the client-manager relationship, and so the fact that CI has seen some its newer clients look to take their business elsewhere shouldn't be viewed so much as a slight as to the competency or value offered by CI managers, but rather simply as a "cost of doing business" when one firm acquires another firm's book of relationships. This is essentially the norm for the asset management industry.

The second reason I like this trade is that there isn't any reason to believe that the recent underperformance of some of CI's leading funds is anything less than a temporary issue.

Not unlike literally thousands of other active managers out there, CI has had trouble lately keeping up with the pace of the current bull market.

However, most experts agree that the [current trend of underperformance](#) on the part of active managers simply can't go on forever. More than likely, it will be only a matter of when, rather than if, market valuations and investor behaviour return to more normal levels, at which time traditional active managers like CI should see the performance of their portfolios improve, not only slowing the pace of redemptions, but also likely helping to attract sales and generating new funds under management.

## Bottom line

Reputation counts for a lot. And CI has an excellent reputation within the Canadian investment management industry.

It should just be a matter of time before this ship rights its course, at which point Foolish investors will be thanking themselves for taking a bet on this leading asset manager.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

1. TSX:CIX (CI Financial)

## PARTNER-FEEDS

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

**Category**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**Date**

2025/08/20

**Date Created**

2018/09/27

**Author**

jphillips

default watermark

default watermark