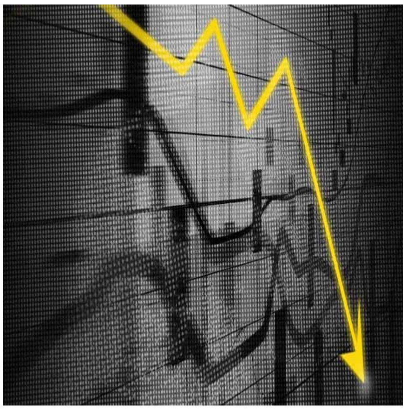

Value Investors: The Market Has Got it All Wrong With This Canadian Asset Manager

Description

Shares in one of Canada's leading asset managers, **CI Financial** (TSX:CIX) fell to a fresh seven-year low in September. While that fact alone may be enough to garner the attention of certain value investors, there's a lot more going on here to make CIX stock a compelling investment right now.

For those that may not already be familiar with CI, it's one of the preeminent asset management firms operating within the Canadian market. It's a firm with a solid reputation and has been around since the 1960s.

More recently, however, the company has faced challenges in the performance of some of its larger flagship funds.

Frankly speaking, the last few years have proven difficult for many professional asset managers, as they have struggled to keep pace with the performance of the broader indexes, led by the outperformance of the FAANG stocks and other high-flying technology companies.

Yet most seasoned investors out there, including industry veterans like Howard Marks, who is the co-founder and co-chairman of **Oaktree Capital Management**, will tell you that the recent outperformance will more than likely prove to be nothing more than a temporary phenomenon.

As Marks pointed out in one of his recent memos, if money continue to flow out from under the active management of firms like CI and others and into passive funds and exchange-traded funds, almost by definition the market will cease to be maintain its efficiency, ultimately creating the opportunity for those active managers to generate alpha for their remaining clients' portfolios — in essence, reaffirming the "efficient market hypothesis" that has been such a fundamental part of portfolio management theory for over 50 years now.

Yet, the threat of outflows from CI's existing book of business is a very real one and one that has — at least temporarily — spooked investors and caused its share price to fall from a 52-week high of just under $30 to its present lows.

Yet the response from CI's board of directors in light of the firm's depressed valuation has been, in my opinion, unquestionably clever and one that I'm not quite sure the market has got a firm handle on just quite yet.

CI is cutting its dividend by almost 50%, but it isn't nearly as bad as it seems…

In the day and age of "click-bait," "headline skimming," and "algos" that are now doing the work normally reserved for humans, maybe the market is a little guilty of not paying close enough attention to the details these days.

Of course — on the surface, at least — when a company announces that it's cutting or suspending its dividend, that usually serves as a signal to the market that things aren't going so great and so the decision is made to tighten the purse strings and limit capital from exiting the firm.

Yet this is simply not the case in CI's recent decision.

While management is indeed reducing its monthly dividend payout from $0.1175 to $0.06, it's also committed to returning up to $1 billion to shareholders over the next 12-18 months via share buybacks. The two moves actually represent an increase in cash being returned to shareholders rather than a decrease.

The board of directors believes — as I do — that CI's stock price is significantly undervalued at current levels and thus represents an attractive investment opportunity.

This makes a lot of sense in that CI is literally in the business of finding and investing in attractive business opportunities; and in retiring a significant chunk of its outstanding shares, not only will the absolute dollar value of dividend payments come down, but the remaining shareholders will own a bigger ownership stake in the company.

Bottom line

Cycles come and go with the seasons, and sometimes a lot more frequently than that.

Part of the job of a successful investor is to be able to identify which of those cycles are temporary and which are of a more permanent nature.

In the case of the circumstances surrounding this stock right now, despite what some may suggest, I for one don't believe active management is going the way of the dodo bird. I think the latest decision to temporarily cut its dividend is a very shrewd move on the part of the company's board of directors.

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