



Manulife Financial Corp. (TSX:MFC) Falls Into Muddy Waters: Why It's Time to Sell

Description

Manulife Financial ([TSX:MFC](#))([NYSE:MFC](#)) stock is a major core financial holding for many Canadian retail and institutional investors. Despite being a vital piece of the puzzle for a handful of value and income-focused Canadian mutual funds and ETFs, the name is by no means immune to a violent correction, which may be on the horizon as multiple pressures finally begin to mount.

The stock has struggled to form any sort of sustained rally over the past few years and now with Muddy Waters short-seller Carson Block targeting the company with a publicly-announced short position, I think it's finally time for shareholders to take a step back to re-evaluate the long-term thesis in order to determine whether the risk/reward trade-off is still favourable.

The Muddy Water allegations are horrifying

Last Thursday, Muddy Waters released a short report that alleges that Manulife is at risk of losing billions of dollars depending on the outcome of a trial between the company's subsidiary and a hedge named Mosten Investments LP. The unsettling news caused Manulife shares to fall 3% to new 52-week lows.

Mr. Block also noted that Manulife is at risk of falling into a "death spiral" if worse comes to worst and the life insurer loses its trial to Mosten. In addition to the billions in losses, Block noted that its credit rating would take a hit and that customers would be heading for the exits.

"We believe a verdict is likely by the end of this year. There are therefore material risks to the financial wellbeing of [Manulife Financial], noted Muddy Waters. "We do not believe investors are aware of these risks, nor do we believe they have been priced into shares."

As you'd imagine, Manulife denied the allegations.

Only time will tell whether Muddy Water's allegations are shown to be on base; however, given Manulife's apparent lack of near to medium-term catalysts, I'd say the newly added risks aren't worth the potential rewards.

Foolish takeaway

Manulife's 4% dividend yield pales in comparison to many other dividend rockstars out there, so you're not really missing much by taking a raincheck on a name that I believe could face substantial downside, even if Manulife doesn't end up losing a penny in court.

John Hancock is dragging down the company's ROE, and [increased competition in the Asian market](#) are significant long-term headwinds that could prevent Manulife from sustaining any sort of rally. Moreover, last June I warned investors that a ["head and shoulders" pattern](#) was in the works and if it came to fruition, Manulife stock would fall substantially, possibly to \$19 and change.

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