



How to Play the Rebound in Active Management

Description

To quote the great Harvey Dent, “The night is darkest just before the dawn.”

Okay, so that might be quote from a famous comic book/superhero movie, but it’s also true, and it happens to be something that a lot of active managers are probably saying to themselves these days.

While the current bull market has been one of history’s longest and, ironically, one of the least popular in recent memory, it’s also been a market in which many active managers have struggled to keep pace with the broader indexes, like the TSX Index, for example.

Active managers are defined as portfolio managers — and retail investors — that actively deviate their investments from what is held in the broader indexes. The idea is that these portfolio managers will be able to successfully separate the winning investments from the losers and, in doing so, [outperform the market](#).

These managers will try to avoid or underinvest in stocks that they feel will underperform the market, while allocating more money to those stocks that they believe will do better on average.

Within Canada, **CI Financial** ([TSX:CIX](#)) is one the country’s largest active managers.

Having been around since the 1960s, the firm has established a reputation for delivering reliable returns for clients and attracting some of the industries most qualified professionals.

However, as the market has been largely led by technology and, more specifically, “FAANG stocks” in recent years, it’s been very difficult for the traditional “fundamentalists” to justify buying in to the valuations that some of those companies have been receiving from the market.

And yet the FAANGS have continued to defy gravity, and that’s left the likes of CI and smaller firms like **Senvest Capital** in the lurch.

Several of the firm’s key portfolios have lagged the performance of the market in recent periods, which has led to outflows as more and more investors have begun leaving the firm in search of better

opportunities elsewhere — namely, passive-investing strategies.

This is kind of funny, because this is typically exactly how cycles behave. They trend in one direction for an extended period — in this case, the underperformance of active money management and the rising popularity of passive investing — until they can't go any further.

Naturally, things tend to reverse course and the result normally falls somewhere in the middle — the irony, of course, is that active portfolio management likely looked its worst just as it was at its most valuable.

Because as markets have started selling off, active management becomes that much more valuable, and chances are that some of those flagship funds at CI will begin to start outperforming the market averages. And it's not as if the sky was even falling at CI to begin with. In fact, the firm's book of business is still very much intact.

Quarterly earnings continue to trend higher thanks to several key acquisitions last year; meanwhile, CIX stock is trading at a very attractive forward price-to-earnings multiple less than eight times.

Sure, the board of directors made the decision earlier this year to slash the company's dividend in half, but that fails to tell the whole story.

But that decision had nothing to do with the former dividend being unsustainable — it was, in fact, extremely sustainable.

It had everything to do with freeing up capital to pursue the most profitable opportunities available to it and, in doing so, improve returns for shareholders.

Bottom line

The reality is that following the dividend cut, the company is planning to return more and not less capital to shareholders over the next 12-18 months.

How? Share buybacks.

CI's board of directors feels that its share price is significantly undervalued at current prices, and the best thing it can do is buy more — of itself.

This should be telling you something, particularly as these are some of the country's most cunning investment managers.

The fact that CIX stock has fallen another 10% or so since the announcement — as [dividend-centric investors](#) look elsewhere — only serves to make it that much of a more attractive investment today.

Fool on.

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Author

jphillips

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