
# 1 TSX Stock That TFSA Value Investors Should Probably Sell

## Description

Many of today's beginner value investors are in danger of being lured in by the siren songs of "value trap" stocks, which, while cheap on the surface, may be severely overvalued when you consider the excess baggage that comes with investing in companies whose stocks are severely depressed. And for new investors who've taken a "bottom-up" approach to analyzing the stock under question, it's more than likely that they'll be the ones left holding the bag when all is said and done.



A free (or nearly free) ticket to jump aboard a sinking ship is essentially what you're getting when you go on the hunt for the cheapest of stocks on the TSX. And it'll be your TFSA portfolio that'll end up sinking if your strategy is to buy a stock just because of favourable valuation metrics like P/E, P/B, or P/S.

Screening out the "cheapest" stocks based on traditional valuation metrics is, more often than not, going to lead you to trouble, as cheap stocks are typically cheap for a very good reason. And if you look for the cheapest of the cheap, you're probably going to run into several companies that are operating within an industry that's in secular decline.

By investing in a company whose industry is in the midst of a secular decline, you're not only going against the grain over long term, but you're also betting on a massive (and probably unlikely) reversal of fortune for an entire industry. And if you're a bottom-up investor like most beginners are, you may be misunderstanding the more important macro picture that's valued more by top-down investors.

Consider **IGM Financial** (TSX:IGM), an extremely cheap stock that a new value investor would see as top undervalued pick that's deserving of a spot in a TFSA portfolio.

IGM trades at a 10.1 forward P/E, a 1.8 P/B, a 4.4 P/S, and a 10.7 P/CF, all of which are lower than the company's five-year historical average multiples of 14.2, 2.3, 6.4, and 14.2, respectively. The stock is cheap based on a historical standpoint, and it's also one of the cheaper names in the financial industry.

What's the issue here? Top-line growth is stagnant, and I believe it's going to be on a sustained downtrend throughout the next decade thanks to the continued secular decline of actively managed mutual fund products.

Canadians are finally starting to realize the real long-term costs of the rich 2.8% MERs slapped on those popular no-load mutual funds. Technology has allowed Canadians to improve their financial literacy like never before and innovative new products like ETFs are only getting better and cheaper, as their number of offerings continues to surge.

Will Ashworth, my colleague here at the Motley Fool Canada, is bullish on IGM's plan to take back share with its re-branding as IG Wealth Management, among other initiatives, to adapt in a rapidly changing industry that's ripe for disruption. Moreover, Ashworth believes that Wealthsimple, the majority-owned robo-advising firm of IGM's parent, will "play a part in IGM's revival."

While IGM could effectively adopt new technologies with the hopes of winning new clientele, the fact remains that IGM is going to need to invest more in R&D and marketing to command fees that'll be substantially lower than what the company has commanded in the past through its high-fee mutual fund services. CEO Jeff Carney is doing a great job of playing on IGM's strong points by focusing on wealthier (and stickier) clientele, but in spite of all the efforts, I think long-term secular headwinds will ultimately prevail.

**Foolish takeaway**



The trend is towards low-cost passively managed products. You can't slap a 2.8% MER on a passive ETF, so even if IGM were to retain or even grow its assets under management (AUM) in an era of rapidly increasing competition, its margins are probably going to fade as operating costs creep up.

IGM is a cheap stock. There's no doubt about that, but it can get cheaper over the long haul in spite of management's promising attempts to reignite growth through its new technologies and its revamped wealth management brand.

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**Date**
2025/07/21
**Date Created**
2018/11/07
**Author**
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