



Revealed: My Top Stock to Short Sell in 2019

Description

Many investors don't even consider shorting stocks, choosing instead to bet on a company's success.

I completely understand that mentality. Many investors consider the world of short selling a little bit scummy. Prominent short sellers will often go on the offensive, saying incredibly damaging things about a company with little proof. Others say shorts will take a position before releasing their report and then promptly sell during the resulting chaos.

Investors get doubly upset when the target of a short attack happens to be a stock they're long.

I agree with some of these negative opinions on short sellers, but at the same time I think it's unwise to ignore them completely. Even long-only investors can learn a great deal from folks who bet on companies going down. If they can identify what shorts look for, then they can learn to avoid buying stocks with those same characteristics.

With that in mind, let's take a closer look at a company I would short today if I dabbled in that part of the market.

A melting ice cube

I don't think the next few years are going to be good for **IGM Financial** ([TSX:IGM](#)), the parent company of Investors Group and Mackenzie Investments.

Both of these businesses were cash cows for years. Investors Group has an army of investment advisors — numbering 5,000 strong across Canada — that sold mutual funds to retail investors. These funds were often managed by Mackenzie. These advisors then used their sales skills to get customers to buy insurance, mortgages, and other financial products.

Assets under management kept growing because stocks continued to rise, and most small-time investors didn't have many alternatives. It was difficult for middle-class folks to own stocks directly, even as recently as 20 years ago.

Technology changed everything. Not only could individual investors easily buy stocks, but the internet made it easy to research both specific equities and mutual funds. A movement sprung up online urging investors to dump their expensive mutual funds and invest in hot new products called exchange-traded funds (ETFs), which offered the same diversification as mutual funds at only a fraction of the cost.

To their credit, IGM's management saw the writing on the wall and has begun to move away from its traditional model. It is requiring all of its investment advisors to get a Certified Financial Planner certification and offer more advanced financial planning and tax strategies to their clients.

But there are a few problems with this new strategy. Investors Group has a reputation of offering overpriced mutual funds and little else. This will not be shaken easily. The company is attempting to target high-net-worth individuals with this new financial planning focus, which is an incredibly competitive market. Besides, many wealthier folks have embraced the simplicity of an ETF portfolio.

A potential dividend cut

Every good short needs a catalyst, something that will cause investors to start paying attention. I believe IGM Financial's inflection point will come when it cuts its dividend.

The payout is currently \$2.25 per share on an annual basis, which works out to a 6.8% yield. The company earned \$2.65 over the last 12 months, which indicates the dividend is safe.

But I'm not so convinced. I believe earnings will go down based on the continued trend away from Investors Group's core products and due to volatile equity markets causing current clients to reexamine their investments. It's just too easy for people to figure out the weaknesses of IGM's mutual funds and then fire their advisor.

It would take just a small decline in the bottom line to push the payout ratio up above 100% of earnings.

The bottom line

IGM Financial is at a turning point today, and ultimately I think its new direction is the right one. But turnarounds are painful and take a lot of time. It might work out in the long term, but I'm skeptical that investors will give the company any credit today. Therefore, I would encourage long-only investors to avoid the stock and tell active short sellers to consider betting against the shares.

CATEGORY

1. Dividend Stocks
2. Investing

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