Why 2019 Could Mark an Inflection Point for This Canadian Asset Manager

Description

Shares in one of Canada's leading investment managers, **Gluskin Sheff + Associates** (TSX:GS), are up double digits already in February, showing a gain of 11.34% heading into this week's trading.

I've been a proponent of the long-term prospects in shares of both Gluskin Sheff as well as rival firm **CI Financial** for a while now.

I'll discuss Gluskin Sheff's most recently reported second-quarter results from February 8 and why, despite the report being a bit of a "mixed bag," I continue to see signs that things may be about to start turning around at the firm.

To start off, the headline number to come out of the second-quarter results was its reported earnings per share (EPS) of $0.24 — a result that was 61% lower than what the company had recorded in its second quarter of last year. Most of that decline stems from a steep drop in the amount of performance fees that the firm was able to extract in the second quarter versus a year ago. Gluskin Sheff generated only $264,000 in performance fees compared to the $28.4 million it collected a year ago.

That development is largely owing to the fact that some of the firm's key flagship funds have been underperforming as of late. But the fact that these funds have been underperforming has been far from a secret and is, in fact, a large part of the reason why Gluskin Sheff's stock price has fallen from a high of $16.94 last July to less than $8.90 at one point last month.

Yet when you look past the scary EPS number, there were at least two key takeaways that I, for one, am choosing to view in a positive light when it comes to evaluating the firm's long-term prospects. Both stem from the absence of performance fees that the firm collected and charged its clients in the second quarter.

I make the distinction because the lack of performance fees it earned in Q2 will have undoubtedly come as a disappointment to the company's short-minded investors.

However, at the same time, the fact that the company has managed to avoid the temptation of sticking its client base with unjustified performance fees is a decision that I applaud, and one that should be rewarded by those clients over the long term with improved loyalty.

The second takeaway is that the firm's total expenses declined by $13.7 million in the quarter, as the company elected to lower its bonus payouts to staff and management.

While almost certainly would not have been a popular move among the company's employees, it's a shrewd move in that it clearly communicates to clients and shareholders alike that while the firm wants to reward its employees, it will only do so when circumstances dictate.

Bottom line

In an era where many investors complain of the high fees charged by asset managers, the latest move on the part of Gluskin Sheff's management and its board of directors shows that the firm is more interested in aligning its interests with clients rather than lining its pockets with fat performance bonuses.

It's a move that I, for one, appreciate — a move that I think its client base will be sure to appreciate as well and one that should pay dividends for the firm's shareholders over the long term.

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jphillips