



There's 1 Simple Reason to Own This Financial Stock

Description

Power Corporation ([TSX:POW](#)) is a difficult stock to get a read on.

It owns or controls some great businesses including **Great-West Life**, which in turn owns London Life, Canada Life, Irish Life, and Putnam Investments and **IGM Financial**, which owns IG Wealth Management, Mackenzie Investments, and Investment Planning Counsel.

Yet it's failed to deliver for shareholders over the long haul, generating a 10-year annualized total return of 5.4%, which is 280 basis points less than the **S&P/TSX Composite Index** and 451 basis points worse than **Fairfax Financial**, which itself has seen some lean years recently.

Corporate governance rubs investors the wrong way

One of the significant issues that dogs the family business is its corporate governance.

Institutional investors don't like the fact that the Desmarais family holds 59% of Power's shares despite owning far less of the actual equity. That's because it has a dual-class share structure that allows it to control the business through special voting shares that come with 10 votes per share as opposed to one vote for the regular common stock.

It's a structure that was set up years ago by Paul Desmarais Sr., who grew the family business from a lone bus line in Sudbury, to be one of Canada's largest financial services companies.

I've never had a problem with dual-class share structures because I believe that with the right people at the top of the food chain, they will always do what's best for all shareholders, including themselves. For every bad example of a dual-class share structure company, I can show you a [good one](#).

Behind the times

Another issue that dogs the company is its mutual fund business, IG Wealth Management. Formerly known as Investors Group, it became known for having some of the highest mutual fund fees in the country while providing very little in the way of investment advice.

Newish CEO Jeffrey Orr is [transforming](#) IG into a firm where everyone has their certified financial planner (CFP) designation providing added-value advisory services at a reasonable price.

It's early in the game for this side of the business, but it was a move that had to be made. To remain on the path Investors was on was a no-win situation.

The simple reason to buy Power stock

On May 22, Toronto-based online investment manager Wealthsimple announced that it raised \$100 million of financing, one of the largest fintech raises in Canadian history.

What is especially noteworthy about this latest round of funding is that the digital arm of German financial services company **Allianz Group**, which manages investments of almost two trillion euros, is taking a big chunk of the \$100 million, enough to give it 10% ownership in Wealthsimple.

The Power Group of Companies, which includes **Power Financial**, IGM Financial, and Portag3, the group's fintech business, will still hold 89% of the votes.

If you haven't heard about Wealthsimple, it's Canada's largest robo-advisory, with more than \$5 billion in assets under management and 150,000 clients.

CEO Michael Katchen, who founded the company in September 2014, has set a goal for Wealthsimple of \$1 trillion in assets under management within 15 years. An audacious goal, for sure, but if he's right, Power shareholders are going to very happy individuals.

Katchen wants to take Wealthsimple public. He believes it's the ultimate indication that you're for real and doing big things.

"You build faith by being big, and looking big, and that's why I'm obsessed with this idea of going public when we can," Katchen said while discussing the latest round of funding. "That's the ultimate hallmark of self-determination and independence: being a public company in control of its own destiny, versus a startup dependent upon outside capital."

In the meantime, Katchen loves having the backing of Power Corporation because it lets Wealthsimple do things it couldn't do with venture capital investors who are far less patient.

Keep an eye on Wealthsimple because it will likely be one of Canada's great IPO stories whenever it decides the time is right to go public.

Taking outside, third-party money from Allianz is the first of many steps to get there. If you own POW stock, enjoy the ride.

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1. TSX:POW (Power Corporation of Canada)

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