Canadians: Be Cautious With This Stock

Description

If you haven't taken at least a little bit of profit off of the table, now is as good a time as any to do so. The recent sell-off has been quite concentrated in tech, and I think there's a chance that it could spread into the value scene. Undoubtedly, the **S&P 500** and **TSX Index** looks overdue for a correction. While one is always around the corner, it's notoriously difficult to pinpoint when stocks will drop 10% or more.

Timing the market is a foolish (that's a lower-case *f*) endeavour. But taking profits off companies that have seen their prices exceed your estimate of its intrinsic value range is only prudent. If there's no value to be had, it's time to part ways, at least with a partial trimming of your position in an overvalued stock.

In this piece, we'll look at one Canadian stock that's currently commanding a price that's well above my personal price target. I'd be uncomfortable holding the stock at current levels.

That said, your estimate of the stock's intrinsic value may still be higher than mine. And if that's the case, it may make more sense to hold onto your shares or even purchase more. I'm not right all the time. No investor is.

In a tough spot

In any case, let's get into a stock that I believe is overvalued according to my personal financial models. Enter **IGM Financial** (TSX:IGM), a wealth management player that could realistically sink 10-15% over the coming weeks and months.

I've never been a fan of the non-bank wealth managers in today's era of self-guided investing. Mutual funds and other high-fee products are on their way out, and while IGM Financial has done a great job of rolling with the punches, I still think the company could find itself sinking at the hands of the big banks.

You see, the big banks are easily able to upsell their existing clientele without having to spend excessive amounts on marketing campaigns. IGM may have some brand equity behind Investors Group, MacKenzie, and all the sort, but I don't think they'll fare well against the big banks, as they continue pushing into the wealth management space.

IGM found itself on the wrong side of a secular decline, and not even investment in fintech, I believe, will be able to prevent a decline in assets under management over the extremely long term. Of course, I could be wrong, but I personally wouldn't want to bet on the firm, especially at these heights.

The stock trades at 11 times trailing earnings. It's pretty cheap. But not cheap enough, given I think the firm could be at risk of losing share over the coming years. I'd steer clear and would rather stand alongside a big bank, especially **Royal Bank of Canada**, which has done well with its wealth management segment in 2020.

Technically unsound

To enhance my bearish thesis further, I'd like to bring your attention to an ominous (and timely) technical pattern that could come to fruition over the near term. The stock appears to have formed a bearish symmetrical continuation triangle, implying a mild correction to around $31.

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