



## Why Is Bank of Montreal Canada's Worst-Performing Bank?

### Description

Often the best investment opportunities arise when companies are willing to endure short-term pain for long-term gain. These painful decisions can result in depressed earnings and a discounted stock price. If an investor is willing to wait out the short-term noise, the odds will eventually be in his favour. But what happens when a company repeatedly does the exact opposite? Unfortunately, one of Canada's banks is a repeat offender.

Recently a man came forward with his experience with **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). One of the company's investment advisors was duped by a fraudster, and the poor customer lost his entire \$87,500 balance. That alone would not be so bad; everyone makes mistakes.

But Bank of Montreal failed to take responsibility for the error. Instead, the customer had to fight with the bank's lawyers and managers. Making matters worse, the customer is also fighting cancer, and had to work full-time (even while on radiation) to pay for cancer drugs, instead of using the money that should have been in his account. Only when the customer threatened to go public did the bank agree to reimburse him (if he agreed to two pages of legally binding conditions).

This case is just the latest example of Bank of Montreal making a poor long-term decision to provide a short-term boost.

For example, one of the bank's most popular mutual funds is its Monthly Income Fund, a favourite among retirees. But for years, the monthly income fund paid out a higher distribution than it could afford to. Fearing redemptions, Bank of Montreal refused to cut the distribution, even during the financial crisis. Eventually the problem snowballed out of control, and it cut the distribution by nearly 60% a year ago. The fund's unit-holders were mostly blindsided.

Another example involves the bank's repeated 2.99% mortgage promotions. While these promotions are popular with homebuyers, they are not good for shareholders, and have even drawn the ire of finance minister Jim Flaherty. Not coincidentally, Bank of Montreal's Canadian banking operations have the highest expense ratio among its peers (it's difficult to get high margins when a company keeps offering large discounts).

### **Foolish bottom line**

The past 10 years have not been a great time to be a Bank of Montreal shareholder. Over this time, total shareholder return has been 6.15% per year, the worst of Canada's big five banks. By comparison, the average of the other four is 9.3%. The top performer has been **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) at 11.1%. Even **CIBC** ([TSX:CM](#))([NYSE:CM](#)), which got hammered the most by the financial crisis, has outperformed Bank of Montreal.

In my opinion, this company needs a drastic culture change before it becomes a compelling investment opportunity. And judging by today's story, that looks to be a long way off.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:RY (Royal Bank of Canada)
4. TSX:BMO (Bank Of Montreal)
5. TSX:CM (Canadian Imperial Bank of Commerce)
6. TSX:RY (Royal Bank of Canada)

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