3 Reasons Not to Buy Bank of Montreal

Description

Of all the Canadian banks, **Bank of Montreal** (TSX: BMO)(NYSE: BMO) is one of the cheapest. Its price/book ratio is the lowest among all the banks, and only **CIBC** has a lower price/earnings ratio.

But there are reasons that Bank of Montreal is so cheap. And for those same reasons, it would probably be better to avoid the company altogether.

1. Growth comes in the wrong areas

This is a problem that faces **TD Bank** (TSX: TD)(NYSE: TD) as well. Both banks have extensive operations in the United States, with TD focusing on the East Coast and Bank of Montral focusing on the Midwest. And with little room to grow in Canada, the banks are counting on growth coming south of the border.

But Bank of Montreal's profitability is not as strong in the U.S., something it also has in common with TD. For example, in 2013 Bank of Montreal had twice as many employees working in Canadian banking as U.S. banking. But Canadian banking earned three times as much net income. Expenses as a percentage of revenue was only 51% in Canada, but more than 60% in the United States.

Bank of Montreal still has to prove that as it grows in the United States, shareholders will benefit.

2. Weakness in Canada

Also like TD, Bank of Montreal is facing some dark clouds on the horizon in Canada. High consumer debt levels and an arguably overheated real estate market mean that loan growth will be hard to come by. And with the market so mature, most gains will have to come from stealing market share.

But its banking operations in Canada are not as strong as TD's. One way of measuring this is the "efficiency ratio", which measures expenses as a percentage of revenue. As mentioned above, that number was 51% in Canada for Bank of Montreal in 2013. But that was the highest number among the big banks. TD's was the lowest at 46.5%.

3. A poor track record

If you had put $1,000 into Bank of Montreal stock 10 years ago and reinvested the dividends, that investment would be worth $1,839 today. But you would have more money today if you picked any one of the other big five banks. If you invested that money equally in the other four banks, that investment would be worth over $2,400. If you picked TD, the stake would be over $2,700.

The past 10 years have seen Bank of Montreal make plenty of mistakes. Poor risk management led to steep losses during the financial crisis; the bank even had to raise more equity in 2008 after its share price had fallen drastically. It was also the first bank to introduce the infamous 2.99% mortgages, starting an unnecessary price war and infuriating Canada's Finance Minister.

This kind of track record should not inspire confidence in the investment community.

Foolish bottom line

There are some investors who want to hold all the Canadian banks, as a way of betting on the Canadian economy, or in an effort to diversify a portfolio. But otherwise, this is a stock that you do not need to own.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BMO (Bank Of Montreal)
4. TSX:TD (The Toronto-Dominion Bank)

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