5 Reasons to Own The Bank of Nova Scotia

Description

When building a portfolio, many investors like to start with one of Canada's big five banks. This is a reasonable approach, but which bank is the best one to go with?

Below are the top 5 arguments to choose **The Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS).

1. Diversification

The Bank of Nova Scotia is easily Canada's most international bank, with roughly half of net income coming from outside the country's borders. This comes with a few advantages.

For one, the bank isn't overly reliant on any one market. For example, if you'd like to own a Canadian bank, but are really worried about the Canadian housing market, this bank is likely the least exposed.

Secondly, diversification gives the bank added flexibility. If one country is doing particularly well, then it can increase its focus there. Likewise, it can dial back activities in regions that are struggling.

2. Emerging markets strength

Most of its international revenue comes from emerging markets. More specifically, CEO Brian Porter said the bank will focus more on Mexico, Colombia, Peru, and Chile. These are the right kinds of emerging markets, with healthy, growing economies.

These countries also have generally under-banked populations, giving the bank even more potential to grow earnings. Contrast that with **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD), whose growth prospects are mainly in the United States. While Toronto-Dominion is doing some great things in the U.S., that country is growing much more slowly and is far more competitive.

3. Growth in Canada

Make no mistake: Bank of Nova Scotia's presence in Canada leaves much to be desired. However, Mr. Porter is determined to change that, as emphasized in an investor conference earlier this year. Two initiatives in particular are worth highlighting.

One is the deal signed with Canadian Tire Financial Services, giving the bank a role (and an equity stake) in a very large credit card business. The other initiative is Tangerine, the branchless bank bought from **ING Groep NV (ADR)** in 2012. Tangerine already accounts for roughly 20% of the bank's deposits in Canada, and given how popular Tangerine is, that percentage is likely to grow significantly.

4. Track record

The Bank of Nova Scotia is well known — as many employees will begrudgingly tell you — for cost control, and has been for a long time. Its expenses totaled only 53.5% of revenue last year, a lower number than Toronto-Dominion Bank. This is despite the fact that TD Bank is a larger bank, and ideally would enjoy more economies of scale.

Thus, Bank of Nova Scotia has the type of discipline that investors should be looking for when they search for stocks — because nothing spoils stock returns like an overspending management team.

5. Price

Perhaps most importantly, this bank is trading at a reasonable price. Granted, this is partly because people didn't react very well to the most recent earnings report. However, at 14 times 2013 earnings, its shares are trading at an attractive price for a bank with such healthy prospects. Meanwhile, TD Bank trades at close to 17 times 2013 earnings.

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