

Your Instant 3-Stock Diversified Financials Portfolio

Description

A financial portfolio that only consists of bank shares is not adequately diversified given the current risks facing the Canadian housing market.

New investors looking to start a financials portfolio should have exposure to the banks, but it is a wise move to also add a couple of other financial stocks that provide the same opportunity for dividend growth and capital appreciation but are focused on other areas of the financial sector.

Here are the reasons why I think new investors should consider **Sun Life Financial Inc.** ([TSX: SLF](#))([NYSE: SLF](#)), **Intact Financial Corporation** ([TSX: IFC](#)), and **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) as top picks to start a financials portfolio.

Sun Life Financial Inc.

Sun Life has rebounded strongly from the financial crisis.

In its Q2 2014 earnings statement, the company reported record assets under management of \$684 billion, a 16% year-over-year increase. Sun Life is also very well capitalized, with a minimum continuing capital and surplus requirement (MCCSR) of 222%. The MCCSR is a measure of the company's financial stability.

The key opportunity Sun Life offers investors is growth potential in Asian markets.

In India, Sun Life has spent several years building its presence through a joint-venture agreement. Birla Sun Life Asset Management Company reported record assets under management at the end of June 2014.

A recent proposal by the Indian government would allow foreign insurance companies to increase their ownership stake in local partnerships to 49%. The current limit sits at 25%. Given the strong foundation Sun Life already has in India, the new rules could mean significant opportunity for earnings growth moving forward.

In the Philippines, Sun Life's operation has nearly tripled its premium income since 2010.

In general, strong equity markets have been very beneficial for Sun Life's wealth management operations. At the same time, low interest rates have hindered returns for life insurance companies. The prospect of higher interest rates in the U.S. should entice investors to start moving into Sun Life's stock.

Sun Life pays a dividend of \$1.44 per share that yields about 3.4%.

Intact Financial Corporation

Investors often overlook Intact Financial but the company should get more attention. As Canada's largest provider of business, home, and car insurance, Intact covers the insurance needs of Canadians through three core business units: Grey Power, Belairdirect, and Intact Insurance.

Despite the record levels of catastrophe losses incurred by Canadian insurance companies in 2013 and early 2014, Intact has held up well. The stock is up nearly 20% in the past 12 months and has increased by 120% during the past five years.

Intact Financial pays a dividend of \$1.92 per share that yields about 2.7%.

Intact consistently delivers a higher-than-average return on equity, with an adjusted ROE for the past 12 months of 11.9%, and the company believes it will continue to beat the industry ROE average by at least 500 basis points over the next year.

Canadian Imperial Bank of Commerce

Despite some concerns about the Canadian housing market, every financial portfolio should have a bank component and I think investors should consider Canadian Imperial Bank of Commerce as their pick at this point in time.

CIBC has shifted its strategy to focus on growing its wealth management business. In 2013, the company bought Atlantic Trust and that acquisition has proven to be a profitable one. In CIBC's Q2 2014 earnings statement, the wealth management division recorded net income of \$121 million, up 19% compared to Q2 2013. CIBC's previous head of wealth management, Victor Dodig, is now the CEO. Dodig recently stated that he is comfortable spending up to \$2 billion in the near term to expand the wealth management division.

CIBC pays a dividend of \$4.00 per share that yields about 3.75%. Investors should see continued dividend growth moving forward.

The bottom line

Given the current risks facing the Canadian banks, I think these three stocks provide a balanced way to invest in the financial sector.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:IFC (Intact Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)

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Author

aswalker

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