Why You Should Buy the Canadian Banks Instead of Bitcoin

Description

Over the past few years, virtual currency bitcoin has taken the financial world by storm. Its appeal is quite simple: It is technologically impossible to create more than a tiny number of bitcoins in a given year. In other words, there's no central bank with unlimited money printing authority.

And as bitcoin's popularity increased, its price spiked too. In early 2010, a bitcoin could be bought for less than one cent. By late 2013, the price reached as high as $1,126, and currently trades for a little under $400 (all dollar figures in USD).

But there are reasons to avoid the digital currency and just buy the Canadian banks instead. Below, we take a look at three.

1. Safety and volatility

Bitcoin's appeal is actually quite similar to that of gold. To put it succinctly, they are stores of value that should withstand even the direst of economic circumstances. In other words, even if Armageddon arrives and the U.S. dollar is worthless (due to endless money printing), then bitcoin should still be worth something.

However, bitcoin has proven to be anything but safe. Even its meteoric price rise wasn't a smooth ride — for example, in 2011 the price of one bitcoin jumped from $1 to $31, then back down to $2. More recently, the price of bitcoin dropped below $300 before a modest recovery in the past couple of weeks.

Compare this with a bank like **Royal Bank of Canada** (TSX: RY)(NYSE: RY). Even during the financial crisis, when other banks were failing around the world, it took nearly two years for RBC shares to decline by just over 50% (that's a peak-to-trough figure). And RBC's shares have more than recovered since then.

2. Economic value

Even the most passionate bitcoin enthusiasts can't answer a simple question: What's the fair value of a bitcoin? And this reveals a fundamental problem with the currency: Because it doesn't generate any cash flows, estimating an intrinsic value is impossible. Rather, you can only hope that people are willing to pay more for them in the future.

Meanwhile, Canada's banks generate very healthy earnings, so you can actually estimate a fair value for their stocks. Even better, these earnings tend to grow. For example, **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM) earned over $8 per common share last year, and pays out $1 per share per quarter in dividends. And you can get a CIBC share for less than $100.

3. Regulatory crackdowns

Due to bitcoin's rapid rise, regulators have been caught off-guard, as the currency has been used heavily for money-laundering purposes. But the regulators are starting to catch up. For example, the New York Department of Financial Services is proposing sweeping new rules for bitcoin and other digital currencies. Such regulations could make bitcoin harder to use and could also cause some panic selling.

Meanwhile, banks are already subject to very tight regulation, especially after the financial crisis. And Canadian banks are regulated even more strictly than in the United States — for example, our banks have higher capital requirements. So there is much less risk of new sweeping rules that will cripple stock prices.

For more information on Canada's banks, see the free report below, which gives a detailed explanation of each Canadian bank.

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1. Bank Stocks
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