



Canadian Banks vs. American Banks: Which Should You Buy?

Description

There are many differences between Canada and the United States. One of them is in the world of banking. Canadian banks are known to be very profitable and stable, aided by a lack of competition. Five banks dominate the market.

The United States has thousands of small banks, many of which have only one branch. These banks face intense competition, and as a result make a lot less money. Worse still, many proved to be very unstable, failing altogether during the financial crisis.

That said, American banks are much cheaper. So which should you go for?

The argument for Canadian banks

Most of the major Canadian banks escaped the financial crisis relatively unscathed, proving how stable they are even in the worst of times. Fast forward to today, and they remain very profitable.

Royal Bank of Canada ([TSX: RY](#))([NYSE: RY](#)) is a perfect example. Canada's largest bank avoided the worst of the financial crisis, and today makes record profits. Its annualized return on equity was just short of 20% in the most recent quarter.

The Bank of Nova Scotia ([TSX: BNS](#))([NYSE: BNS](#)) is another example. The bank was able to remain well-capitalized throughout the financial crisis, and today makes a return on equity higher than 20%.

Unfortunately, these banks are not cheap. Bank of Nova Scotia trades at almost twice its book value (the value of its assets minus liabilities as shown on the balance sheet), while RBC trades at 2.5 times book. Secondly, there are worries about Canada's housing market, and it's difficult to tell what kind of effect that will have on the banks.

The argument for American banks

At first glance, you might think American banks should be avoided at all costs. After all, many of them needed to be bailed out during the financial crisis. And even today, profitability is hard to come by, with

low interest rates and a sluggish economy. Making matters worse, the biggest banks have had to pay record settlements to the U.S. government.

But there are two big reasons to prefer the American banks. One is an improving environment. With the end to quantitative easing, interest rates might finally start to move up. The economy is also continuing to improve, with GDP growing at a robust 3.5% annual rate in the third quarter.

More importantly, the American banks are far cheaper than their Canadian counterparts. Take **Bank of America Corporation** ([NYSE: BAC](#)) as an example. The bank had to accept bailout money during the crisis, and today makes less than 1% return on equity. In August, the bank reached a settlement with the Department of Justice for US\$16.65 billion. Because of these issues, the bank trades for less than its book value.

Why not hold both?

We all know that Canadian banks make a great core holding in most portfolios. But at these prices, you can get some American bank shares at a steal. Holding both is a great option.

For more information on the Canadian banks, you'll want to consult the free report below.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BAC (Bank of America)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:RY (Royal Bank of Canada)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:RY (Royal Bank of Canada)

Category

1. Bank Stocks
2. Investing

Date

2025/07/02

Date Created

2014/11/07

Author

bensinclair

default watermark