A Beginner's Guide to Canada's Big 5 Banks

Description

A lot of people think that Canada's banks are all the same, and there's no real point in trying to pick between them.

While the banks certainly have their similarities, there are also some stark differences. And as a result, their stocks represent very different bets. Below we introduce you to the basic differences between the big 5, and help you decide which one is worth owning.

Royal Bank of Canada (TSX:RY)(NYSE:RY) is Canada's biggest bank, and has some very impressive businesses. In Canadian banking, it has a top two market position in practically every major product category. In addition, its Wealth Management and Capital Markets businesses are each among the world's biggest.

So what separates RBC from the other banks? Well first of all, it gets nearly a quarter of earnings from Capital Markets, where risk is high and transparency is low. RBC also likely has greater exposure to energy companies than its competitors. So there are definitely some risks to be wary of. But RBC is also a very high-quality company, and its shares have outperformed each of the other big 5 banks over the last 10 years. The higher the risk, the higher the reward.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is also a top-quality bank, one with a leading retail position in Canada. TD also has a sizable position in the United States — in fact over half of the bank's branches lie south of the border.

The U.S. operations have never been very profitable, but today are a blessing, since the U.S. economic outlook is much better than Canada's. Unfortunately, TD is more expensive than its peers, trading at 12.2 times earnings. If you want to own a well-positioned company with a strong track record, you have to pay up.

The Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is Canada's most international bank, with a big presence in Latin America. As a result, the bank has some very exciting growth opportunities.

Unfortunately, the bank has been struggling, especially in the Caribbean. As a result, its stock price has lagged that of its peers over the past year. On the bright side, The Bank of Nova Scotia trades at less than 11 times earnings, the cheapest ratio among its peers. For a long-term investor, this stock is a compelling option.

The Bank of Montreal (TSX:BMO)(NYSE:BMO) has had its fair share of struggles. During the financial crisis, Bank of Montreal got caught up in the subprime mess, and even had to issues more shares in late 2008 (at a very depressed stock price). Up in Canada, the bank doesn't have the same presence or scale as banks like Royal Bank or TD. As a result, Bank of Montreal is simply not as profitable north of the border.

There are still some things to like about this bank. Like TD, the bank has a sizeable presence in the United States. And the bank has picked up some momentum in Canada, having grown Canadian Banking net income by 11% last year alone.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has the worst track record of any Canadian bank, having suffered the worst during the financial crisis with over $10 billion in writedowns. But CIBC has simplified itself dramatically, and is now more Canada-focused than any other big 5 bank. It's a great way to bet on the Canadian economy, if that's what you're looking to do.

Of course this is just an introduction. For more information, be sure to check out the free report below.

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