Why You Should Buy Manulife Financial Corporation and Canadian Western Bank Instead of the Big 5 Banks

Description

The Big Five Banks have long been staples in the portfolios of many Canadians, and for good reason. They face limited competition, generate tremendous cash flows, and have acted responsibly for decades.

But now there are plenty of concerns for the Big Five Banks. Low oil prices are threatening the Canadian economy. Low interest rates are denting margins. New technology firms are disrupting many of the banks' services. And Canadians' debt levels remain at record levels. For these reasons, shorting the Canadian banks has become a popular strategy, especially among American hedge funds.

So, what should investors do? Well, there's a strong argument to dump the Big Five Banks and buy these two companies instead.

1. Manulife

During the financial crisis, no Canadian company suffered more than **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC). In fact, the company struggled to even stay afloat.

Fast forward to today, and the story is very different. The company is clearly in growth mode, and nowhere is this more evident than in Asia. In the first quarter of this year, Asian insurance sales rose 42% year over year, and wealth management sales nearly doubled.

Other insurance companies are fighting for more Asian business, but this has proven to be very expensive. But Manulife has been in the region for over a century, giving the company a crucial head start. Tellingly, about 30% of the company's core earnings come from Asia. Over at **Sun Life**, Asia accounted for just 8% of revenue last year.

That being the case, investors still haven't been won over. The company trades at just 11.5 times forward earnings, which is about equal with the Canadian banks, despite having far better growth prospects. So, Manulife's shares still have plenty of room to run, even though they've doubled in the past three years.

2. Canadian Western Bank

Low oil prices are a worry for the Big Five Banks, but **Canadian Western Bank** (TSX:CWB) is without a doubt even more affected. So, why is this a better buy than a bigger bank?

The biggest reason is price. Over the past year, CWB shares have declined by nearly 30%. That's more than most oil companies, and far worse than any of the Big Five Banks shares. Yet at the same time, CWB's earnings haven't taken much of a hit. In the most recent quarter earnings per share grew by 6%.

But no matter. Investors are scared by low oil prices, and have sold CWB en masse. This has created a perfect opportunity for the rest of us.

CATEGORY

1. Investing

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1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:CWB (Canadian Western Bank)
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