



Why You Should Trade Your Royal Bank of Canada Shares for JPMorgan Chase & Co.

Description

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) is not only Canada's largest bank, but it is also Canada's largest company. It is a market leader in Capital Markets and Wealth Management, and has a top two position in every major retail banking product line. So, it's understandable why so many Canadians make RBC a staple in their portfolios.

That said, there are some big concerns for the Canadian banks, including RBC. Oil's collapse is wreaking havoc on Alberta's economy, and the province's problems could negatively impact the rest of the country. Meanwhile, Canadians' debt remains at record levels, and real estate prices are still sky high. If Canada comes crashing down to earth, the banks could suffer.

Fortunately, there are better options for investors. One that stands out is the American banks. Below we take a closer look, focusing on one bank in particular: **JPMorgan Chase & Co.** ([NYSE:JPM](#)).

An American giant

JPMorgan has a lot in common with RBC. It is America's largest bank, with well over US\$2 trillion in assets. It is a market leader in retail banking, commercial banking, wealth management, and investment banking. It has a strong track record and solid capital ratios.

Of course, the major difference is geography—a big majority of JPMorgan's net income comes from the United States.

This makes JPMorgan less profitable. U.S. banking is notoriously competitive, making big profits hard to come by. Canada is dominated by five big banks, making life much easier for companies like RBC.

An improving outlook

While the U.S. banking environment isn't easy, there's a lot of optimism among the companies involved. The American economy continues to perform strongly, aided by the low oil prices that are hurting Canada. Interest rates could rise in the months ahead. And industry consolidation means that

competition is gradually becoming less fierce.

Even RBC wants a bigger piece of the action. Earlier this year the bank paid north of US\$5 billion for City National, an American private bank well known for its Hollywood celebrity clientele. RBC paid top dollar for City, nearly three times book value, but believes the price to be well worth it.

So, you'd think that American banks such as JPMorgan trade at a big premium (relative to earnings) compared to the Canadian banks. But you'd be mistaken.

About the same price

According to Morningstar, JPMorgan trades at 12.5 times earnings, which is barely more than RBC's P/E of 12.2. And on a go-forward basis, JPMorgan is actually cheaper.

This makes absolutely no sense. American banks have much better growth prospects than their Canadian counterparts, but still trade at the same price. But rather than cry foul, we should instead take advantage.

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