



## 3 Top Financial Stocks for Dividend Investors in 2016

### Description

It hasn't been a great year for Canada's financials.

A number of issues helped keep the sector down. Many investors think Canada's housing market is a ticking time bomb. Low interest rates have kept the spread between the cost of loans and the interest obtained from the borrower low. And investors are obviously concerned about the energy sector's continued weakness going into 2016.

As an investor, you can choose to look at those issues in one of two ways. You can either swear off the sector for now, choosing to come back in when those doubts have cleared themselves up, or you can choose to ignore them, knowing investor trepidation is the reason for so many of the sector's cheap valuations.

The fact is that you're unlikely to find a sector as cheap as the financials in today's market. Investors are getting compensated quite well to accept those risks.

With that in mind, here are three financial stocks that are currently trading at cheap valuations and pay attractive dividends that look attractive going into 2016.

### National Bank

**National Bank of Canada** ([TSX:NA](#)) is the Rodney Dangerfield of Canadian banks. Even though it has a market cap of nearly \$14 billion and total assets of more than \$215 billion, it still trades at a much lower valuation than its peers. It gets no respect.

This is good news for the enterprising value investor. Where else in today's market can you buy a bank trading at nine times earnings and at less than 1.3 times book value? Oh, and one that pays a dividend of 5.3%? You might find another, but pickings are slim.

One of the reasons why investors are so pessimistic about the company is its Canadian-centric approach. If the market is concerned with the Canadian economy, it's only natural that investors would avoid the bank with the most exposure.

National Bank's management team knows this as well as we do. Look for it to make an acquisition in the United States relatively soon, following the path blazed by its larger peers. Such a deal could help bridge the valuation gap between National Bank and other Canadian banks.

## Genworth

**Genworth MI Canada Inc.** (TSX:MIC) is Canada's largest private insurer of mortgages, which places it square in the cross hairs of Canadian housing bears. If Canada's real estate market implodes, they argue, the bankruptcy of Genworth is a distinct possibility.

I'm not sure it'll be that bad. Remember, Genworth has a guarantee from the Canadian government that gives it much of the same support offered to CMHC, its government-owned main competitor. Insurance premiums have been going up lately, and the company has a healthy \$3.36 billion worth of book value compared to just \$229 million in net debt. A lot will have to go wrong for it to chew through that much equity.

The stock is very cheap as well. It trades at just 72% of book value and has a P/E ratio of just 6.6, making it one of the cheapest stocks in the entire country on both metrics. The dividend has been boosted each year Genworth has been publicly traded, and shares currently yield 6.3%.

## IGM Financial

**IGM Financial Inc.** ([TSX:IGM](#)) is one of Canada's largest money managers. It owns the Mackenzie Financial group of mutual funds and is the parent to some 5,000 Investors Group investment advisors.

Shares of IGM have fallen more than 20% thus far in 2015 as investors are nervous about upcoming rule changes that will force investment advisors to disclose the cost of mutual funds in actual dollar terms, rather than just a percentage of assets. This combined with the continued move away from mutual funds into ETFs could be bad news.

But I'm not convinced. People value the relationship they have with their Investors Group advisor. If cost was the real issue, they would have moved on long ago. Certain investors are more than willing to pay for the reassuring voice of an advisor. And having an army of salespeople to push its funds is a huge advantage for IGM.

Like the others, IGM is downright cheap today. Shares trade hands at just 12 times earnings, and investors are getting an attractive 6.2% yield.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

1. TSX:IGM (IGM Financial Inc.)
2. TSX:NA (National Bank of Canada)

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