Beat the Market With These Banks

Description

Who doesn't want to beat the market? Beating the market means that you get higher returns than the market.

Simply beat the market

In recent years some investors have decided to invest in index funds that cover the whole market. The goal is to match market returns (minus any transaction fees or management expenses).

However, history shows that it can be very simple to beat the market by investing in Canada's biggest banks. These banks have paid the oldest dividends in Canadian history. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) pays the oldest dividend, having paid it for 186 years! Even **Royal Bank of Canada** (TSX:RY)(NYSE:RY), which pays the *youngest* dividend in the group, has paid its dividend for 145 years.

Not only do these banks outperform the market in total returns over the long term, but they also beat it in terms of income because they offer higher yields.

Other than Bank of Montreal and Royal Bank of Canada, the big banks include **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

As a comparison, I will use the ETF **iShares S&P/TSX 60 Index Fund** (TSX:XIU) to represent the market. It tracks the 60-largest stocks in the Canadian market and sufficiently represents it.

Here are the total returns (with dividends reinvested) of each investment over different long-term time frames. These banks were all better investments than the market over these periods. All five banks gave higher returns with lower volatility than the market. Particularly, Royal Bank of Canada, Toronto-Dominion Bank, and Bank of Montreal delivered stellar returns in the past five years.

	5-Year	10-Year	15-Year

RBC	11.2%	8.1%	9.9%
TD	11.4%	8.4%	8.5%
BNS	4.1%	5.5%	9.6%
BMO	10.3%	5.2%	7.3%
CIBC	7.4%	5.3%	7.7%
The market	0.5%	2.1%	2.8%

Even great companies can underperform occasionally

You may be interested to know that Bank of Nova Scotia has recently lagged behind the market and its peers. Year-to-date, the market's total returns were -8.3%, Bank of Nova Scotia's were -8.5%. I see Bank of Nova Scotia's price weakness as a temporary discount to its peers. This weakness may be partly due to the strong U.S. dollar and because the bank earned 36% of its income in 2015 internationally from places such as Latin America, Asia, and Europe.

There's no question that Bank of Nova Scotia offers the biggest discount and one of the biggest dividends of the banks.

These banks offer higher income

Other than their ability to outperform in long-term returns, these banks also beat the market in current income. Right now, iShares S&P/TSX 60 Index Fund yields 3.1%, Royal Bank yields 4.2%, Toronto-Dominion Bank yields 3.7%, Bank of Nova Scotia yields 4.8%, Bank of Montreal yields 4.2%, and Canadian Imperial Bank of Commerce yields 4.9%.

Conclusion

I'm not saying that you should only buy these banks to beat the market. If you did, you would have too much concentration in one sector.

(There are other sectors you can buy to diversify your portfolio: utilities, energy, materials, industrials, consumer discretionary, telecommunication services, healthcare, consumer staples, information technology, and arguably, cash and equivalents, and real estate or REITs.)

However, these banks would serve nicely as a part of a diversified portfolio, especially one that focuses on income. If you're looking for sizeable exposure to the strong U.S. dollar, Toronto-Dominion Bank and Royal Bank of Canada are good choices. If you're looking for the best value for your dollar, Bank of Nova Scotia is your top choice.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. NYSE:BNS (The Bank of Nova Scotia)
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