3 Simple Reasons to Buy Bank of Nova Scotia Today

Description

Some people are fans of making investing complicated. These people–who tend to work at banks, hedge funds, or other businesses designed to extract fees from investors–do everything they can to sound smart. They talk of things like building valuation models, using macroeconomic trends only they've heard of, and, of course, they use a lot of financial jargon.

Some prefer a different strategy–one that's largely employed by Warren Buffett, the most successful investor in history. By keeping things simple and investing in fine companies that have a very obvious competitive advantage, investors can do well without a bunch of fruitless work.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is a perfect example of keeping things simple. You could spend hours delving into the tiniest details on the company's balance sheet or income statement, and I don't think it would matter. The big reasons are far more important.

Here are three of the best reasons investors should load up on Bank of Nova Scotia shares.

Expansion

Bank of Nova Scotia has taken a unique approach to expanding outside Canada. While its peers are focused almost exclusively on the United States, Bank of Nova Scotia has avoided the country, choosing to expand in Central and South America, as well as a little into Asia.

These international operations have more than 1,800 branches across a dozen countries, contributing almost $2 billion per year to the bottom line. The majority of operations are in Mexico, Colombia, Peru, and Chile.

These economies have several advantages over Canada. First of all, they're growing faster. Even including the drag caused from oil's decline, which is a big economic driver in the region, Peru, Mexico, and Colombia are still expected to grow about twice as much as Canada. Chile, the laggard of the group, is still expected to outgrow Canada over the next few years.

There's also potential to sign up new banking customers. In North America, just about everybody has a need for banking. Nations like Peru have millions of unbanked or underbanked citizens. As they get richer, these people will open up accounts, take out loans, and contribute to the bottom line for banks in the region.

Dominant Canadian operations

When it comes to operations here at home, Bank of Nova Scotia still does a nice job.

It's hard to differentiate between Canada's five largest banks. Bank of Nova Scotia does a nice job with its credit cards–especially SCENE cards, which let holders collect points to use towards free movies at **Cineplex** theatres–and it continues to be pretty strong with its lending business. It does have a bit of exposure to the energy sector, but that looks to be manageable.

These Canadian operations continue to deliver consistent cash flow the company uses to give back to shareholders and expand abroad. It's a strategy successful companies have used for centuries.

Sweet dividends

Bank of Nova Scotia pays investors a 4.2% dividend, which is about six times higher than the rate of a five-year Government of Canada bond. And unlike that bond, Bank of Nova Scotia's dividend goes up pretty much every year.

Sometimes investors discount the true power consistent dividends have, so let me demonstrate how important they are. Over the last decade, Bank of Nova Scotia shares have increased from $48.23 to $69.78–a return of 44.7%, or about 4 % a year compounded. That's not terrible, especially considering we had the worst financial disaster in a generation hitting in the middle of that range.

But if an investor had reinvested their dividends while holding all those years, the return would skyrocket to 8.3%. Total return on a $10,000 investment goes from $14,470 to $22,194. That is a massive difference.

Reinvesting dividends is possibly the easiest way to accumulate wealth. That all starts with picking a great stock, like Bank of Nova Scotia, that has the ability to pay consistent dividends in the first place.

It doesn't need to be complicated. To get rich, investors just need to load up on great companies such as Bank of Nova Scotia, hold for a long time while putting their dividends back to work, and that's about it. Simple, as is often the case, is best.

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