Will Canadian Banks Follow Their American Counterparts Higher?

Description

Last week, a number of U.S. financials reported quarterly earnings, including **Bank of America Corp.** (NYSE:BAC) and **Wells Fargo & Co** (NYSE:WFC). The earnings, the first to be reported since the results of the presidential election, were expected to be good, but the market still reacted well in spite of high expectations.

Although Bank of America Corp. beat expectations while setting solid expectation for the future, Wells Fargo & Co fell just a little shy of expectations, but managed to carve out a gain of almost 1.5% for the day.

The question: Will Canadian financials follow suit?

Looking at Canadian financials, it is important to realize the banks are near or at their 52-week highs. Although the year has just started, expectations are high, and rightfully so.

Given the changes in mortgage regulations, the large banks have been able to tighten their stranglehold on at least one part of the lending sector, while many smaller, alternative lenders (or competitors) have been squeezed out of the market. The new rules will result in continued loan growth and hopefully better margins, which Canada's major banks have been crying about for quite some time now.

Canadian consumers had — at least until recently — the availability of many competitors that are no longer originating new mortgages. The oligopoly is back on!

As many retail investors may not be aware, the loan origination metrics at any financial institution is a leading indicator of future performance. Assuming high-quality loans are made to individuals and companies who will pay them back, the mortgage origination metric increasing is a clear path to higher future revenue. The interest charged on these loans will accrue to the bank with every passing day. No wonder many of the Canadian banks are trading at 52-week highs!

On the opposing side, the wealth management segments of the business, some of which are on a per-transaction basis, while others derive their revenue from a percentage of total assets have undoubtedly made higher profits in the past quarter. With the total assets under administration increasing (as the markets have increased), the fees earned from these businesses will also be higher. Investors of Canadian financials have a lot to be excited about.

Which bank should I buy?

For a Canadian-focused institution, shares of **Bank of Montreal** (TSX:BMO)(NYSE:BMO) may be an investor's best friend. Currently trading at 14 times earnings and yielding 3.5%, in the past year investors have enjoyed returns of over 20%.

For investors looking to hedge their investment between Canada and the United States, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is the way to go. Currently trading at 14 times earnings and offering a yield of 3.25%, this is the Canadian bank with the most exposure south of the border and the most room for future growth.

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