



## Why Canadian Western Bank Could Be the Big Loser in 2017

### Description

As an investor who's growing increasingly bearish on the prospects of small- to medium-sized Canadian banks, looking for value in Canada's smaller alternative lenders and regional banks is a risky proposition. The risk/reward discussion is at play here, and sometimes bigger and better returns can be had from larger packages in times of stress (i.e., the "Big Five" Canadian banks).

For a long-term investor trying to think as Warren Buffett would, perhaps **Canadian Western Bank** ([TSX:CWB](#)) would be a fine long-term pick. An investor looking for slightly higher longer-term returns in the Canadian banking sector would reasonably look to smaller names, as many high-profile studies have been done on how market capitalization is inversely related to returns (take a look at the Fama-French 3 Factor Regression Model).

That said, smaller lenders have been hit hard of late, and Canadian Western Bank is no exception. An investor who purchased Canadian Western Bank at the beginning of the year would be down 10% year-to-date compared to a return of 5% for **Royal Bank of Canada** (the largest bank in Canada), a 3.5% return for **Bank of Nova Scotia** and **Bank of Montreal**, a 1% return for **Canadian Imperial Bank of Commerce**, and a flat return for **Toronto-Dominion Bank** (largely due to a [scandal](#) early in the first quarter).

For momentum traders and those looking to pick an attractive entry point on Canadian Western Bank, now may not be the time to dive in as it appears that those pesky bearish investors are at it again, driving down the prices of smaller Canadian banking institutions at a faster rate of late.

I don't know how long this trend will last; however, we have seen with other alternative lenders, such as **Home Capital Group Inc.** and **Equitable Group Inc.**, that investors are now choosing to put their money and faith in other equity issues, moving away from smaller, regionally focused lenders toward the larger national banks.

### Bottom line

Canada's big banks are some of the best banks in the world in terms of the balance of regulation (safety) and profitability (risk-taking activities) in addition to increasingly broader geographical diversification among the largest banks. Smaller regional banks are likely to be hit harder by adverse economic effects to given areas, and Western Canadian Bank is no exception; right now may not be the time to take on excess exposure to western Canada given the prevailing headwinds of the region.

Stay Foolish, my friends.

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