



Why I Wouldn't Touch Canadian Western Bank

Description

Many investors may be shopping around for smaller banks outside the Big Six. It's common knowledge to many that smaller stocks offer greater upside potential with the cost of a bit more risk, but I don't believe this "greater upside potential" exists in the case of **Canadian Western Bank** ([TSX:CWB](#)). I'd argue it's a riskier stock with greater downside potential, and investors would be much better off sticking with one of the Big Six banks.

The Big Six Canadian banks have been taking a hit on the chin lately as investor pessimism continues to rise. **Moody's Corporation** went as far as downgrading the Big Six Canadian banks, citing that "growth in Canadian consumer debt" and "elevated housing prices" leave the big banks "more vulnerable to downside risks facing the Canadian economy." While this may be true, I believe the whole downgrade is overblown, and investor pessimism over the banks is getting out of hand.

Is Canadian Western Bank a smart alternative to the Big Six banks?

So, the Big Six banks got downgraded, but does that mean smaller Canadian banks are immune to the headwinds? Definitely not. Let's take a look at why.

Canadian Western Bank is Canada's 10th largest bank with most of its operations in western Canada. Approximately 71% of revenues come from British Columbia and Alberta. Alberta is hurting right now, and I see no reason why things will get better over the medium to long term.

Prudent investors would be wise to avoid companies with a large amount of exposure to Alberta, even if the stocks of these companies are cheap. They're cheap for a reason. Foreign investors have lost confidence in Alberta's oil sands, and there's reason to believe that oil prices may remain lower for longer.

What about value?

In the case of Canadian Western Bank, the stock isn't even that cheap when you consider the additional risk involved with an investment. The stock trades at a 12.23 price-to-earnings multiple, which is actually in line with the valuation of some of the Big Six banks, which I believe are far superior.

The management team at Canadian Western Bank is looking to diversify away from Alberta, but any moves to do this will probably be meaningless over the short to medium term.

Unless you believe the Albertan economy will rise above the headwinds, I'd avoid Canadian Western Bank like the plague. The stock isn't as diversified as its Big Six peers, and, realistically, I don't see where the "extra upside" would come from when taking on the additional risk involved with an investment in a small regional bank.

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