



Equal Weighting Banks: It's the Only Way to Go

Description

Horizons ETF Management Canada research analyst Brooke Thackray appeared on BNN October 27 in its "Top Picks" segment. One of Thackray's top picks was the **BMO S&P/TSX Equal Weight Banks Index ETF** ([TSX:ZEB](#)).

Thackray's argument is simple: bank stocks do well at this time of year.

A little over a year ago, I [suggested](#) that investors who like Canadian bank stocks should own ZEB because its equal-weighting methodology removes any difficulty you might have coming up with the best-performing bank stock; each calendar year it tends to be different. This year it might be **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)); next year, who knows?

From September 23, 2016, through October 27, 2017, ZEB is up 26% compared to 12% for the **iShares S&P TSX Capped Cmpst Indx Fnd** ([TSX:XIC](#)).

How does it compare to other bank ETFs? See below. Please note that I've included every TSX-listed ETF with the word "bank" in its name, which adds a favourite of mine unrelated to banks.

YTD Performance Bank ETFs (through October 26)

ETF	YTD Return ETF	YTD Return
BMO S&P/TSX Equal Weight Banks Index ETF	11.8%	
	BMO Equal Weight US Banks Index ETF (TSX:ZBK)	6.7%

BMO Global Banks Hedged to CAD Index ETF (TSX:BANK)*	7.5%*	BMO Equal Weight US Banks Hedged to CAD Index ETF (TSX:ZUB)	10.9%
First Asset European Bank ETF (TSX:FHB)	26.2%	BMO Covered Call Canadian Banks ETF (TSX:ZWB)	9.2%
Hamilton Capital Global Bank ETF (TSX:HBG)	10.2%	First Asset Morningstar National Bank Quebec Index ETF (TSX:QXM)	12.3%

Source: Morningstar.ca

* BANK started trading April 7, 2017.

ZEB continues to outperform

Except for the First Asset European Bank ETF, ZEB has outperformed the other TSX-listed bank-focused ETFs. Long term, as I said last September, ZEB is going to outperform the ZWB for a couple of reasons. First, it's 10 basis points cheaper at 0.62%. Second, the ZWB is a combination of bank stocks, ZEB itself and covered calls, which makes it a lot more complicated, not to mention expensive.

Meanwhile, ZEB gets [rebalanced](#) every six months; the rest of the time, it's on autopilot. Easy peasy.

Extraordinary outlier performance

As for the extraordinary performance of FHB, the manager's Q2 2017 commentary explains why it's done so well year to date.

"European banks offer very attractive dividend yields and dividend growth from banks will likely exceed overall market dividend growth," its commentary stated. "In addition, financials are likely the only sector that will benefit from gradually rising interest rates."

That last sentence also applies to Canadian banks and U.S. banks, so they'll experience the same tailwind going forward.

Stronger Canadian dollar

You'll notice that year to date, BMO's hedged version of its U.S. banks ETF, ZUB, has outperformed the unhedged one, ZBK, by 420 basis points. That's all because of the stronger loonie, which has gained more than three cents from the end of 2016, despite the recent pullback due to the Bank of Canada not raising interest rates.

That swings both ways, so if you own a lot of other U.S. equities, you might want to buy the unhedged version, because the U.S. equities already act as a hedge.

Quebec continues to deliver

Some of my favourite companies are based in Quebec, so the QXM remains one of the best ETFs to capture [market-beating](#) performance. Year to date, it's doubled the performance of the XIC. It's done the same over the past three years and five years.

It might not be a bank ETF, but it can hang in there with the best of them.

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1. Bank Stocks
2. Investing

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1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)
2. TSX:ZEB (BMO Equal Weight Banks Index ETF)
3. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

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