

## My Top Stock Pick for 2018: Financials

### Description

I've considered all the options, and my top financial stock to hold for year 2018 is none other than **Laurentian Bank of Canada** ([TSX:LB](#)). Although many won't believe that this Quebec-based [regional player](#) is the top pick for the next year, the truth is that those who are in disbelief have forgotten one very important principle.

When investing, we have to ask the following: what am I giving, and what am I getting?

In the case of Laurentian Bank, investors are paying close to \$57 per share and receiving a share that is worth \$56.75 in tangible book value after removing the goodwill listed on the balance sheet. For those wondering why the intangible assets are not removed in this calculation, the reason is because intangible assets are amortized, which means they have a finite useful life — eventually, they will go to zero on their own.

Unlike intangible assets, which can be identified (and, in most cases, resold if needed), goodwill cannot be identified in the same way and has no finite, useful life. Essentially, no one has any idea when the shoe will drop and when the impairment of goodwill will be recognized. Once this happens, it will be recognized as an expense.

In addition to receiving 100 cents for every dollar deployed into the market, investors will receive a dividend yield of no less than 4.5%, as the company continues to grow top-line revenues. When considering the cash flow statement, the dividends paid accounted for ~27% of net profits and 7% of cash from operations. The dividend-payout ratio as a percentage of net income was unchanged from one year earlier.

When comparing this regional bank to the big names, shares of **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) were a [close second](#). The bank, with a major presence across the country, offers investors a slightly lower dividend yield at 4.25% and has already rallied from close to \$100 per share in early September to a current price of almost \$125. Investors may have already seen the bottom and have enjoyed a substantial rally. Although it is highly probable that this major bank will have the best year of the Big Five players, the upside potential on this name is dwarfed by that of Laurentian Bank.

As investors saw during 2017, shares of **Canadian Western Bank** ([TSX:CWB](#)), which is a much smaller regional bank focused on Alberta, increased at a rate substantially higher than the industry average. What investors can take away from this is that regional banks carry a higher risk/reward profile than those that are pillars of the Canadian economy.

With such well-capitalized institutions, those that underperform in one year will often be the best-performing institutions in the next. With an economy now more divided than ever (between oil and manufacturing), only time will tell if things work out differently this time.

Good luck in 2018.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:CWB (Canadian Western Bank)
4. TSX:LB (Laurentian Bank of Canada)

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