Are You Better Off Investing in Canadian or U.S. Bank Stocks?

Description

It's earnings seasons for Canadian banks, and I thought I'd take a look to see how the Big Five have performed over the years in relation to their U.S. counterparts. While conventional knowledge will tell you that bank stocks are generally some of the safest investments that you can hold, you only need to look no further than the financial crisis 10 years ago to see that even big banks can fail, particularly south of the border.

Are Canadian bank stocks safer than U.S. banks?

In Canada, we have a handful of big banks that dominate the industry, whereas in the U.S. it is a bit more fragmented. That puts more pressure on Canadian banks, since the economy depends on their success and survival.

It's hard to imagine how our economy would be able to cope with the downfall of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) or **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). It's not a scenario that the government would entertain either, and that's a big reason why Canadian banks would not likely fail the way many U.S. banks did during the financial crisis.

However, that's not to say that the big U.S. banks are in any big danger either, but with the recent **Wells Fargo & Co.** (NYSE:WFC) fake account scandal, it renews questions about honesty in the system and whether the big banks can still be trusted. While Canadian banks are no angels, we haven't seen the same amount of controversy on this side of the fence.

Are investors likely to get better returns investing in Canadian banks?

If we look at some of the big banks south of the border, **Bank of America Corp.** (NYSE:BAC) has seen the most impressive returns over the past five years with its share price rising more than 165%. **JPMorgan Chase & Co.** (NYSE:JPM) has not performed much worse with returns of 135% during that time as well. Wells Fargo, meanwhile, has seen more tempered results with its share price rising only 70%.

By comparison, TD has had the strongest performance of the Big Five banks in Canada, but at 75% returns in the past five years, it has fallen well short of the big U.S. banks. Meanwhile, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) has seen its share price rise just 59% in the past five years for a compounded annual growth rate of just under 10%.

Bottom line

While the U.S. banks have produced stronger returns over the years than their Canadian counterparts, dividend investors will see higher yields from Canadian bank stocks.

The Canadian economy could see a setback this year, and that could make the U.S. market an even more appealing investment option, especially after the corporate-friendly tax reforms that were put into place late last year.

Although U.S. bank stocks might be perceived as a bit more risky than Canadian ones given their history, ultimately, both should provide investors with a great deal of stability in the long run.

If you're looking to maximize your returns, you'll be better off investing in Bank of America or JPMorgan. While Canadian bank stocks may provide stable, long-term growth over the years, there is simply much more opportunity for growth south of the border.

CATEGORY

1. Bank Stocks
2. Investing

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2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:JPM (J.p. Morgan Structured Products B.v.)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. NYSE:WFC (Wells Fargo)
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