



2 Reasons Royal Bank of Canada Is Not the Bank Stock to Own

Description

Canadian competitiveness is a subject on the minds of executives these days, as trade wars, NAFTA, and higher corporate taxes have them worried sick about investment capital fleeing the country for greener pastures south of the border.

Recently, **Royal Bank of Canada** (TSX:RY,NYSE:RY) CEO Dave McKay talked about the exodus of capital from our country that's already underway, something Fool.ca contributor Ambrose O'Callaghan [discussed](#) in a recent article.

The government has got to step up

"We would certainly encourage the federal government to look at these issues because, in real time, we're seeing capital flow out of the country," McKay told the *Canadian Press*. "If we don't keep the capital here, we can't keep the people here — and these changes are important to bring human capital and financial capital together in one place."

Not only is the reduction of the U.S. corporate tax rate from 35% to 21% tempting Canadian businesses to move more of their operations to the U.S., but the change by the Trump government that allows companies to immediately write off the cost of new equipment for the next five years instead of doing it over a longer period of time makes it very attractive for Canadian companies considering major expansions.

What McKay doesn't say in his public statements about the loss of competitiveness is that included in the U.S. Tax Cuts and Jobs Act of 2017 is a 30% limit based on a company's taxable income of the interest deductibility for companies with annual revenues greater than \$25 million.

Not only that, but McKay fails to mention that the immediate expensing of equipment purchases isn't permanent. It lasts through the 2022 tax year and then, if new legislation isn't introduced, it goes back to the old rules.

So, Canadian companies might want to think long and hard about relocating significant chunks of their assets to the U.S. given the next president might be forced to roll back all of these Trump goodies to pay for the massive debt it's going to create as a result of the corporate and individual tax cuts.

McKay is offside

It's pretty rich for the CEO of a Canadian bank long known to be tighter than tight when it comes to lending money to Canadian entrepreneurs — you know the old joke: a banker will only lend you an umbrella when it's sunny outside — to be lecturing the Canadian government about competitiveness.

The fact is, there are banks in Canada willing to stick their necks out for entrepreneurs; RBC just doesn't happen to be one of them.

Two options

The first option is **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)).

You might recall that CIBC [acquired](#) Wellington Financial in January, a Toronto-based tech-venture capital company that it rolled into the bank's new division, CIBC Innovation Banking, to be headed by Wellington CEO Mark McQueen.

It's a brilliant move by my favourite Canadian bank, and although it won't be restricting its capital deployment to Canadian tech firms, there will be significant sums invested in Canadian tech entrepreneurs. Case in point, CIBC Innovation Banking announced March 15 that it was lending \$50 million to Vancouver-based Hootsuite for growth capital to scale its business on a global basis.

See? Bankers can lend money to entrepreneurs.

The second option, **SVB Financial Group** ([NASDAQ:SIVB](#)), is my favourite U.S. bank. It lends money and provides banking services to innovators and entrepreneurs in the U.S. and elsewhere, including Canada.

In mid-March, SVB [announced](#) that it was in the final steps of obtaining its approval from the Superintendent of Financial Institutions to open a lending branch in Canada. Ironically, the Canadian operation will be run by former RBC executive Barbara Dirks.

The move by SVB is even more important than CIBC's initiative, because it suggests Canada is not nearly as uncompetitive as McKay professes we are.

McKay and others talk a good game, but at the end of the day, the big banks generally have failed Canadian entrepreneurs. Leaning on the government isn't going to change that.

Buy CM and SIVB if you want to own real risk takers.

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