Why Increasing Mortgage Rates Will Send These Stocks Higher!

Description

Last week, two of Canada's biggest banks made the announcement that mortgage rates would increase for anyone wanting to borrow money for the purchase of a residence. Although this is bad news for borrowers, investors are the ones who need to be paying very close attention, as this decision may be saying a lot about what is coming.

Although the move to increase the rate of interest charged on new mortgages will have a drastic slowdown effect for any financial institution, there may be more than one reason that this decision was made. The first (and most prevalent reason) for this decision is that the costs of obtaining money from the banks' perspective has increased, which is essentially an increase in expenses. The second reason (that is less talked about) is that the banks would like to reduce their exposure to the Canadian real estate market.

Although this is understandable, the hard truth that investors must realize is that by not lending money, there is going to be no growth in the "accounts receivable" section of the balance sheet. Revenue growth will soon dry up!

For investors seeking an increase in revenues and bottom-line profits, the solution may be found far away from the country's big banks and with the smaller alternative lenders. With increasing overnight rates, shares of **Equitable Group Inc.** (TSX:EQB) and **First National Financial Corp.** (TSX:FN) may now be in the best possible position to gap up and make investors a lot of money in the process.

For those seeking a security with a lot of security, shares of Equitable Group, which are currently trading at a price close to $57 per share, offer investors a dividend yield of almost 1.85% and carry tangible book value per share of almost $65. With the assurance that there is value present on the balance sheet to back the price of each share, investors can invest with at least a fair amount of certainty that long-term solvency will not be an issue.

For investors seeking income, First National may be the way to go, as the company has traditionally paid out a substantial amount of free cash flow in the form of earnings. At a price of more than $26 per share, the dividend yield (paid on a monthly basis) is no less than 7% for those who need the income.

In spite of solid business models, the dividend increases for these two names may remain muted in the coming year, as the risk in the Canadian housing market (or at least the perception of it) seems to be increasing.

As is always the case, over time there will be a gradual segmentation of investors who will take positions that will provide them with what they want: either dividends or capital appreciation. Time will tell just how much profit is reaped from each of these names!

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:EQB (EQB)
2. TSX:FN (First National Financial Corporation)

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