



## A Foolproof Stock-Picking Strategy

### Description

I'm about to let you all in on a little secret. There are two simple and effective stock picking strategies that have consistently led to outsized returns. Both are interconnected and relate to Canada's Big Five banks.

The first is to select Canada's worst performing bank over the previous year. On average, the strategy led to returns of 20%!

The second is closely related. It involves selecting the bank with the highest yield. What would investors' average annual return be? They would be sitting on average returns of 21%. A higher yield can signify that these banks are undervalued as compared to their peers.

This type of return is spectacular and retails investors should take note. With that in mind, here are two banks investors should add to their watch lists!

### Worst performing bank

Canada's banking sector has underperformed the broader market this year. As such, there is no shortage of candidates for the worst performing bank. Who earns that distinction through the first half of the year? The **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is [holding the baton](#) at the moment. The company's share price has lost 6.5% year-to-date, narrowly edging out **Canadian Imperial Bank of Commerce's** ([TSX:CM](#))([NYSE:CM](#)) 6.2% loss.

As a result of its struggles, the company has the second lowest price-to-earnings (P/E) and price-to-book (P/B) of the group. Its P/E of 11.1 and P/B of 1.6 also trail the company's five-year averages. On a forward basis, the Bank of Nova Scotia is trading at a cheap 10.6 times earnings.

Its underperformance has not gone unnoticed as eight of the 12 analysts' covering the company rate it a "buy."

### Highest yield

Next up is the bank with the highest yield. This time, CIBC will not be denied. The company's 4.79% yield eclipses Bank of Nova Scotia's 4.29% yield.

This is actually not all that surprising. CIBC has had an elevated yield for the past number of years as it has struggled to keep up with its peers. The reason? Lack of diversification. The bank has long had the greatest exposure to the Canadian market. While the other Big Five banks have been aggressively expanding into the U.S., CIBC has remained on the sidelines.

[Until recently](#), that is. This past summer, CIBC increased its U.S. exposure in a big way with the purchase Chicago-based **PrivateBancorp** (NASDAQ:PVTB). The market is discounting its U.S. exposure and as such, it is the cheapest of the Big Five banks. The bank is trading at a current P/E of 10.65 and a forward P/E of 9.32.

### Keep it simple

Although past results are not necessarily a precursor to success, you can't deny the historical performance of these strategies. Sometimes, keeping it simple is the best strategy.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CM (Canadian Imperial Bank of Commerce)

### PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

### Date

2025/10/02

### Date Created

2018/06/08

### Author

mlitalien

default watermark