



Is Bank of Nova Scotia (TSX:BNS) Canada's Best Bank Stock?

Description

Do you invest in Canadian bank stocks? How about Canadian bank-stock ETFs?

Well, a new ETF was recently launched that invests in all six of the big Canadian bank stocks.

However, rather than invest on an equal-weighted or cap-weighted basis, **Hamilton Capital Canadian Bank Dynamic-Weight ETF** (TSX:HCB) invests based on their recent stock performance.

The ETF is re-balanced monthly with the three best-performing bank stocks accounting for 80% of the portfolio and the three worst-performing bank stocks accounting for the rest.

To start, the three worst performers, led by **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), **Toronto-Dominion Bank**, and **National Bank of Canada**, will each be assigned a 6.5% weighting with the three best-performing stocks each getting a 26.5% weighting.

At the beginning of November, they're all re-balanced based on their 30-day performance. Data suggests this could produce superior returns.

It's an interesting concept.

Bank of Nova Scotia is underperforming as of late

Hamilton's ETF is based on the theory that Canadian banks tend to revert to the mean, so the fact that BNS stock has delivered the worst performance of the Big Six over the past year — BNS is up 0.07% versus an average of 14.2% for its five peers — might suggest that BNS is ready to take off.

Or is it?

While Bank of Nova Scotia continues to branch out internationally — over the past decade, its international banking net income has doubled from \$1.19 billion in 2008 to \$2.39 billion in 2017 — it has done so through costly acquisitions that have added considerable debt.

Fool contributor Matt Smith believes Bank of Nova Scotia is Canada's best bank for growth, [suggesting](#)

that Latin America, where some of the company's most significant acquisitions have taken place in recent years, delivers superior net interest margins, approximately 224 basis points higher than in Canada.

Don't get me wrong, I'm a big believer in Latin America's potential, so I do believe that Bank of Nova Scotia is ideally positioned to benefit from any growth in the region.

It's the Canadian business that worries me.

Integrating acquisitions isn't easy

Bank of Nova Scotia paid \$2.6 billion for MD Financial in May and another \$1 billion for Jarislowsky Fraser in February, and while I'm on [record](#) supporting the purchases, I think that it's yet to show it can successfully integrate the more \$7 billion in acquisitions it's made over the past 10 months.

"Successful integration (i.e., execution) of recent acquisitions is arguably the most important driver of Scotiabank's long-term upside potential," said National Bank analyst Gabriel Dechaine recently.

Is Bank of Nova Scotia Canada's best bank?

Is it Canada's best bank? No. That award goes to **Canadian Imperial Bank of Commerce**.

I do think Bank of Nova Scotia is one of the better bets of the Big Six banks long term. However, it might see a little more downward movement over the next three to six months, before it starts reverting to the mean.

If you can buy in the low \$70s, I would.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:TVE (Tamarack Valley Energy Ltd)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/07/02

Date Created

2018/10/03

Author

washworth

default watermark

default watermark