



It's Time to Load Up on These 2 Banks

Description

Over the years, thousands of Canadian investors have gotten rich by following a method that seems too easy. This ridiculously simple strategy takes nothing but a few moments a year, yet it outperformed just about every other investing framework out there. It also comes with the benefit of a nice income stream via dividends, too.

I won't leave you hanging any longer. This strategy is as easy as buying shares in Canada's largest banks and holding them forever. If you want to really goose your returns, you'd then add shares whenever one is trading at a 52-week low.

I would never suggest Canadian investors put all of their capital into our banks, of course. Diversification is a good thing. But at the same time, I would say that not owning any of our banks is equally silly. They have massive competitive advantages, like protection from foreign competition and mortgage default insurance insulating their lending portfolios from big losses.

The good news for investors is there are a couple of Canadian banks trading at terrific valuations today. It's the perfect time to start buying or add to your position. I've been loading up on these shares of late and encourage you to join me.

Bank of Nova Scotia

There's one simple reason why I'd consider **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) my top pick in the banking sector today. It has to do with the company's international exposure.

The other members of the so-called "Big Five" have turned stateside for their international exposure. There's nothing wrong with expanding into the United States, but I prefer Scotiabank's push into Latin America. Central and South America offer greater potential growth going forward, especially as citizens of these countries graduate into middle-class status.

In its most recent quarter, Scotiabank's Canadian operations posted a net interest margin of 2.43%, with total revenue up 3%. Its international operations posted a net interest margin of 4.74% with revenue growth closer to 7%. Sure, Latin America is likely to be more volatile than Canada going

forward. But investors should gladly make that trade-off in favour of better long-term growth.

Bank of Nova Scotia is also a dividend growth machine. The company increased its quarterly payout twice over the last year, going from \$0.76 per share to \$0.82. Growth in the payout over the last decade has averaged 6%, too, which includes the 2008-09 crisis. The yield today is an impressive 4.7%.

Finally, shares are quite cheap. They're trading at 10.5 times trailing earnings and just 9.3 times projected analyst expectations for next year's bottom line.

Laurentian Bank

It's been a rough couple of years for Quebec-based **Laurentian Bank of Canada** ([TSX:LB](#)). The company had some issues with incorrect documentation on some \$250 million worth of mortgages, loans it would later repurchase from another lender. It has also been slow to implement planned branch closures because of resistance from unionized employees.

Still, it's not all bad. The company has done a nice job growing its top line, with revenue handily on pace to surpass \$1 billion in 2018. Its B2B Bank subsidiary has made nice inroads into the mortgage broker market, which helped diversify lending away from its home province. And

Laurentian is also taking steps to minimize its risk going forward, which should be welcome news to investors who fear a big correction in Canadian real estate.

If you thought Scotiabank shares were cheap, you'll be salivating at Laurentian's. The stock trades at just 7.5 times trailing earnings and at more than 20% under book value. Witnessing a major bank trade under book value in Canada is pretty rare.

Laurentian also has a succulent dividend, with the yield hitting 6.3%. The payout has grown at approximately the same pace as other banks, and the payout ratio is less than 50% of earnings. It's safe, in other words.

The bottom line

Banking is a great business, especially in Canada. Both Bank of Nova Scotia and Laurentian Bank have delivered great results for their shareholders over the years. There's no reason to doubt this outperformance will continue. It really is that simple.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:LB (Laurentian Bank of Canada)

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