Canada’s Big Banks Are Oversold: Time to Buy!

Description

Market jitters have returned in full force. The markets have been taking a beating, and the red tide has spared no one. Everything is being dragged down.

The greatest opportunity exists when stocks and industries are being unfairly dragged down. Banking is one such industry. In fact, last week there was positive catalyst for the financial industry that went largely unnoticed — a 25-basis-point rise in interest rates.

Rising rates should be a boon for Canada’s banks, as they should result in a higher net interest margin (NIM). It was therefore surprising to see Canada’s Big Five banks enter oversold territory last week.

A popular indicator used by investors and traders alike is the Relative Strength Index (RSI). An RSI below 30 signals the stock is oversold and tells investors it’s time to buy.

Based on this oscillator, the following three big banks are flashing buy signals.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

There are a number of reasons to buy TD Bank. It has consistently been a top performer among its peers. Its one-, three-, and five-year performance tops the all of the Big Five banks. Over the past year, its outperformance has been even more pronounced. Year to date (YTD), its stock price has dipped 1.89% as compared to the group average of 7.2%.

Last week, its RSI dipped to a year-low of 21.85. TD Bank is trading below its historical price-to-earnings (P/E) average and has a P/E to growth (PEG) of 0.91. A PEG under one signifies that the company’s share price is not keeping up with its expected growth rate. Thus, it’s considered undervalued.

Royal Bank of Canada (TSX:RY)(NYSE:RY)

With an RSI of 20.9, Royal Bank was the most oversold financial and the fourth most oversold company on the TSX Index last week. The bank finds itself in an unfamiliar position among the worst performers in the industry.

YTD, its stock price has lost 8.67% of its value, second only to **Bank of Nova Scotia**. For the first time since 2016, the company is trading below its historical P/E ratio. As I've written about a few times before, this is a clear buy signal for Canada's big banks.

Bank of Montreal (TSX:BMO)(NYSE:BMO)

BMO rounds out the trio of oversold banks. Its RSI indicator of 22.2 also makes it a screaming buy. BMO's performance over the past one, three, and five years is second only to TD Bank. YTD, it has held up better than most, losing only 2.97% of its value.

Unlike the other two, BMO is still trading in line with its historical P/E ratio. Of note, it's the only one of Canada's Big Five that hasn't dipped below its historical averages. Likewise, it has a PEG of 1.21, implying it is fairly valued based on expected growth rates.

The technical RSI indicator on all three of these reliable dividend-growth companies signal a buy. Canada's banks have been some of the most reliable investment options in Canadian history. Don't miss out on your opportunity to pick them up on the cheap.

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Date
2025/08/25
Date Created
2018/10/30
Author
mlitalien