



2 Cheap Canadian Banks to Buy Today

Description

Bank stocks have been under a modicum of pressure over the past couple weeks, bringing valuations down as earnings season approached. As banks have begun to report earnings, results have once again been quite good. Share prices have started to creep up in response to the positive numbers, leaving would-be investors waiting to decide whether they should initiate a position now in the Canadian banks or wait until a better opportunity presents itself down the road.

Currently, if you do not own a position in any Canadian bank, it would be beneficial to add some exposure to your portfolio. The small pullback has made the banks somewhat cheaper, so it would be a good idea to enter a position, possibly adding two banks to your portfolio. Depending on your view of the global economy, the type of bank you choose can determine your exposure to different areas.

If you are positive on the North American economy, especially Canada and the United States, **Toronto Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Equitable Bank** ([TSX:EQB](#)) could be reasonable choices. TD is a great way to play continued growth in the United States and EQ gives investors exposure to a strong Canadian economy.

The American-focused bank TD had 11% annualized growth for over the past 20 years, making it a better performer over that period than the **S&P 500**. The Q3 results were an impressive representation of this streak, with 13% growth in earnings per share and 4.4% growth in revenue over the same quarter a year earlier. TD [pays a good dividend](#) of 3.63% that it has grown for several years, including a hike of 11.7% earlier this year.

EQ Bank is a relatively new, Canada-focused bank that's delivered some [solid returns](#) over the past few years. Operating primarily as an online bank, EQ has become known as one of the high-interest alternatives to the larger Canadian banks. In the third quarter, EQ delivered diluted earnings per share growth of 27% and deposits increased by 31% over the previous year.

The stock pays a modest 1.69% dividend at the current stock price. The payout has been growing over the past few years, including a hike of 4% in the third quarter.

Most of its lending was to single-family home buyers, which was up 13%. The lending is to Canadian families, which could be an issue if the Canadian home market were to move sharply downwards. But with the housing market remaining strong and defaults staying low, this doesn't seem to be a pressing

fear at the moment. The bank is seeking to build its commercial lending portfolio, which it succeed in increasing by 27% over the past year.

Of course, investing in either of these banks assumes a reliance on a couple of factors. The first is continued strength in both Canadian and American economies. If growth continues, these institutions should do very well. If things turn south, on the other hand, it is possible that these banks, especially EQ with its focused lending to domestic households, will come under pressure.

There are definitely dark clouds that could derail the economic progress that is underway. Tensions are high, asset prices (especially real estate) are through the roof, and the amount of debt on personal, corporate, and government balance sheets is ballooning. Dark times are sure to come once again; it's only a matter of time.

That said, there is no doubt that the central banks of the world have the backs of the economy. Just look at what happened to the stock market after Fed Chairman Powell stated that there was the possibility that interest rates may not rise as quickly as expected. Stock markets took off after just some simple words.

As a long-term investment, however, the banks have paid off quite handily over the years. Long-term investors have been handily rewarded by consistent returns and steady dividend growth. Buying banks like TD and EQ gives you access to these profits and will most likely continue to deliver excellent returns well into the future, although EQ might experience more pressure than the diversified TD if the Canadian economy stumbles.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:EQB (EQB)
3. TSX:TD (The Toronto-Dominion Bank)

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krisknutson

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