



The Better Buy: A Bank Stock or Insurance Companies?

Description

As markets wobble and folks fret about yield curve inversion, investors with cash on the sidelines are likely wondering where best to deploy their capital.

Financials, banks and insurance companies generally stand to benefit from an environment in which interest rates are on the rise because their investment income is largely derived from debt-related instruments.

That said, the effect of higher interest rates on profitability is a gradual process. Fortunately for us, we know that buying and holding high-quality stocks is the key to success in the long term.

Locking in a fair price today on some of the **Toronto Stock Exchange's** best names in the financials sector is our goal today. Let's compare the two largest insurance companies and the second biggest bank on the TSX to see where we should put our money to work.

Manulife Financial ([TSX:MFC](#))([NYSE:MFC](#))

The largest of Canada's insurers by market capitalization, Manulife has over \$1.1 trillion in assets under management and administration.

What sets the company apart from its peers is its [presence in Asia](#), with particular emphasis on Japan and Hong Kong. Equally, Manulife is expanding its business most successfully in Asia, growing new business value in that region by roughly 30% year over year.

Shareholders, too, have benefitted from the company's recent successes, as Manulife plans to buy back up to 40 million shares and announced a dividend increase with its third quarter earnings.

At \$0.25 per share, paid quarterly, Manulife stock offers a yield of over 4.8%. Increased by \$0.03 this past quarter, the company's dividend has room to grow seeing as Manulife only pays out just over 30% of core earnings.

Great-West Lifeco ([TSX:GWO](#))

Ahead of **Sun Life Financial**, Great-West is Canada's second largest insurer by market cap. The company has roughly \$1.4 trillion in assets under administration.

Unlike Manulife, however, Great-West has focused on growing its business in Europe. The results of the company's strategy are evident in its third quarter results, which saw sales up roughly 17%.

Great-West's subsidiary Irish Life acquired a strategic holding in Ireland's Invesco earlier this year, a move that adds to its growing presence across the pond. Third quarter results show the company's European segment increasing earnings by more than 40% year over year.

With growing earnings come growing dividends and Great-West certainly delivers in that department, boosting its payout by around 6% in each of the last couple years. The company currently pays a quarterly dividend of \$0.389, which equates to a yield of about 5.3%. If dividend growth stays on trend then investors can expect another increase in February.

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#))

Behind Royal Bank of Canada by a small margin, TD is the second biggest bank in Canada by market capitalization.

For TD, the U.S. has been the market into which it has expanded in search of growth. [Fourth quarter results](#) show this regional focus to be a net positive for the bank, as earnings from U.S. retail banking surged in the neighbourhood of 40% year over year.

With respect to its dividend, TD tends to deliver an increase in March — the last being a raise of more than 10% earlier this year. The bank currently pays a quarterly dividend of \$0.67 – good for a yield of around 3.8%.

Choices, choices

Of the group, Great-West has the most appealing valuation, as it trades at a price-to-earnings multiple of about 11 and a price-to-book ratio of roughly 1.4. Equally, investors looking for greater income will appreciate that it has the strongest yield of the three.

However, it is hard to ignore that TD has significantly outperformed both of the insurers in the long term and continuously delivers impressive results. Currently trading around its 52-week low, the bank seems like the superior choice for investors looking to invest in the financials sector today.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)

2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:GWO (Great-West Lifeco Inc.)
4. TSX:MFC (Manulife Financial Corporation)
5. TSX:TD (The Toronto-Dominion Bank)

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