



## Investor Beware: 1 Bank Stock I Wouldn't Touch With a Barge Pole

### Description

As a Canadian investor, you're doing yourself a huge disservice by choosing not to own any one of Canada's Big Six banks. They're forever investments in their purest form, and any time they pull back as a group, they've proven to be opportunistic buys for long-term investors in retrospect.

I'm a big fan of the Big Six banks, especially after the recent October-November correction, but what I'm not a fan of are some of Canada's smaller regional players, like **Canadian Western Bank** ([TSX:CWB](#)), an Edmonton-based bank whose stock I referred to as "[toxic](#)" back in January.

Since my strong sell recommendation on Canadian Western Bank, shares have plummeted 34%, and now that shares trade at multiples that are more in line with reality, I still don't think the name is nearly as attractive as any of the Big Six bank stocks, many of which are cheaper, sport higher yields, are less risky, and are just better businesses overall.

"Canadian Western Bank, as the name suggests, operates primarily in western Canada, and is thus heavily exposed to the struggling province of Alberta. Sure, the Albertan economy may be poised to enjoy a rebound in time, but it still has plenty of loans to many Albertan borrowers, many of whom are still under financial stress" I said back in January. "... I don't think the elevated risk profile is suitable for the average investor seeking to bolster the core of their portfolio."

Fast forward to today, and Canadian Western Bank stock has been [clobbered as troubles have continued to mount](#) in Alberta's troubled oil patch. Allowance for credit losses has crept up of late, and in spite of the weak state of the Albertan economy and retreating real estate prices in British Columbia, management is guiding for around 9% in year-over-year loan growth for 2019, a similar magnitude of loan growth experienced this year.

I'd take management's guidance on loan growth with a very fine grain of salt, because it appears they've set the bar too high for themselves given the negative trajectory of oil prices and the massive WCS discount to WTI, which could realistically get much wider over the medium term.

Simply put, I think management is setting themselves up for failure in 2019, as I don't see any sort of

relief for the Albertan economy any time soon. With such regional headwinds, Canadian Western Bank could fall much further into the abyss, so the stock may be an ideal short for the new year if you're looking to hedge your long portfolio from a bear market which appears imminent at this juncture.

## Foolish takeaway

At the time of my original sell recommendation, I failed to understand why anyone would want to pay a premium multiple for a riskier stock with a meagre 2.4% dividend yield, which paled in comparison to every big Canadian bank stock at the time.

Today, the dividend yield is at 4%, which I still don't think is enough to justify the enormous risks associated with Canadian Western Bank and its heavy exposure to Alberta (and B.C., which has its own set of issues).

Stay hungry. Stay Foolish.

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