These 2 Banks Have Hit a Remarkable Buy Point

Description

Knowing when to begin to enter a stock can be tricky, especially when the market seems to be in free fall. Having a buy point set in your mind is extremely important, so you can take the emotion out of trying to decide whether you want to enter a position or not. Different methods, like valuation, technical chart analysis, or dividend yield can all be effective methods for timing your entry into any individual stock.

For most Canadians, the Canadian banks are core dividend positions. Many people choose to use valuations to select their entry points. However, valuation ratios like price to earnings (P/E) and price to book (P/B) seem to make the Canadian banks always look cheap. Therefore, another method for determining a stock purchase might be necessary.

Since I have a great amount of faith in the strength, diversification, and business strategy of the big Canadian banks, the current dividend yield seems to be a good choice as the determining factor for timing when to add to bank positions. Specifically, a yield of 5% or more seems to be a good time to begin adding more shares to a dividend portfolio.

Why add at a 5% yield? Well, for starters the Canadian banks do not often trade low enough to drive their yields to that level. Over the past 10 years, there are only a few times this has occurred. In early 2016, the oil downturn caused investors to worry about the banks' loan books to the oil patch. In 2012, the European crisis created a similar amount of worry. Of course, in 2009 all banks were suspect in the heat of the global financial crisis.

The 5% yield also gives investors a risk premium above the super-safe five-year GIC rate. Right now, investors can lock in a yield of more than 3% on the five-year GIC. The extra 2% and the potential for capital and dividend growth on the bank stocks should be sufficiently appealing at that level as an alternative for the safety of cash.

Right now, there are a few banks that have hit the golden 5% dividend buy level. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) recently crossed the 5% threshold. In addition to the high yield, BNS is also highly international, especially with its focused concentration on emerging markets like Latin America. This provides investors with some much-needed diversification in the face of a stretched Canadian economy.

Another bank that entered buy territory is **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). While this bank is a little more exposed to the Canadian economy, especially the crazy Canadian real estate market, than many of the other large Canadian banks, it is still a large, diversified banking institution. It also has the highest dividend yield of all the banks at 5.2%.

Another benefit of buying Canadian bank stocks when their yields hit 5% is that you are almost guaranteed to buy them at the lower end of their historical valuations. Right now, for example, BNS trades at a trailing P/E ratio of 10 times trailing earnings. CIBC is even more compelling with a trailing P/E ratio of under nine times trailing earnings. On a P/B basis, both stocks trade at a very reasonable ratio of 1.4.

While both of these companies have already hit the 5% buy point, others are coming close. Currently, **Bank of Montreal**, **Royal Bank**, and **Toronto Dominion Bank** are all coming close to the mark with yields 4.48%, 4.19%, and 3.96% respectively. Get your cash ready, because these might be coming down soon.

If you are comfortable with the Canadian banks as companies, the 5% dividend rule is a simple way to ensure you are buying the Canadian banks at relatively cheap prices. For long-term, income-focused investors, getting into the banks at the 5% dividend level will pay off over the long term.

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