



## 3 Reasons to Consider Canada's Smaller Bank Stocks

### Description

Whenever investors think of Canadian bank stocks, the Big Five naturally come to mind. Historic banks like **Toronto-Dominion Bank** that have paid dividends for more than 150 years are the choice of most.

But what about Canada's smaller banks? They might not have the same stellar reputation, but that doesn't mean you shouldn't consider their stocks, so here are my thoughts on three of them.

### National Bank of Canada ([TSX:NA](#))

Depending on who you talk to, National Bank is either considered one of the Big Six or Canada's biggest smaller bank. Either way, I believe it's got a lot to offer investors.

Recently, the *Globe and Mail's* "Number Cruncher" column named National Bank one of 14 stocks out of 250 that have consistently grown their fundamentals such as sales, income, cash flow, return on equity, etc., over the long term while also exhibiting short-term share price momentum. The only big bank on the list was **Bank of Nova Scotia**.

Not many Fool contributors cover the bank.

However, Karen Thomas had positive things to say about it in mid-January, [suggesting](#) that the bank is becoming more efficient. The bank's lower efficiency ratio combined with strong growth in both its international and investment banking divisions makes it an excellent alternative to the big banks.

Growing as fast as the Big Five, and in some cases, faster, National Bank's 4.2% dividend yield is very attractive right now.

### Canadian Western Bank ([TSX:CWB](#))

I didn't think any of my Fool colleagues liked to cover Canada's smaller banks. However, I was wrong. It turns out that Jason Phillips recently [covered](#) both CWB and **Laurentian Bank of Canada** ([TSX:LB](#))

January 30. And, more importantly, he likes both of them; as do I.

Why?

Well, in the case of CWB, it's long been known as a financial institution serving Western Canada almost exclusively. However, it's grown beyond Western Canada by supporting growth businesses across Canada. Case in point: in 2016, it made a big move acquiring GE Capital's \$350 million franchise finance loan portfolio.

It is these kinds of moves that continue to make it a player in Canadian business banking. While it might not have a \$21 billion market cap like National Bank, it does a good job supporting businesses in Western Canada and beyond.

## Laurentian Bank of Canada

Of these three banks, Laurentian is the one I've been most vocal about over the past two years.

Long story short, Laurentian sold some residential mortgages to a third party that, in some cases, didn't have the proper documentation or were improperly included in the sale. As a result, the bank was forced to review all of its insured loans through the CMHC. It completed the review last May with \$295 million in mortgages sold inadvertently out of a total of \$1.8 billion. It had no material impact on the bank.

In June, I'd suggested that Laurentian was a beaten-down stock that deserved better. It was trading in the mid-\$40s at the time — well down from the high \$50s a year earlier. Today, it's still in the mid-40s, and like my colleague, I believe the future is a bright one for Laurentian.

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1. Bank Stocks
2. Investing

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1. Editor's Choice

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1. TSX:CWB (Canadian Western Bank)
2. TSX:LB (Laurentian Bank of Canada)
3. TSX:NA (National Bank of Canada)

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