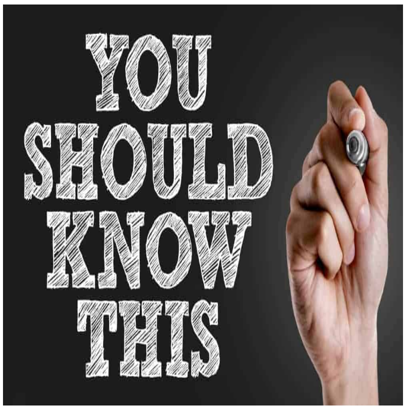

A Bank Stock I'd Sell Now Before Things Get Uglier

Description

It's been a while since the macro environment was this ugly for bank stocks.

Many of us have grown accustomed to the banks as a stable and consistent source of capital gains, dividends, and dividend growth over the past several years. But as we head into a more challenging environment with slowing mortgage growth, lower economic growth, and potential rate cuts, sub-par quarters from the big banks may become the new norm over the next year or so.

With the yield curve now inverted, the banks have been enduring a violent decline, surrendering a big chunk of the gains from the bounce off the bottom hit last Christmas Eve when recession fears were at peak levels. As investors fret about the same old sell thesis once again, contrarians may be wondering whether it's a good idea to do some dip buying in spite of the endless concerns spewed by the bank shorts in the mainstream financial media.

Although the banks' dividend yields are looking more ripe for picking, contrarian income investors should maintain caution, especially with the more severely hit bank stocks that possess massive dividend yields. With plenty of headwinds and few if any meaningful catalysts over the near-term, it's very much possible that the selling activity could accelerate, especially if the "R" word continues to be thrown around.

Of all Canadian banks, **Laurentian Bank** (TSX:LB) looks the cheapest based on traditional valuation metrics. The stock also sports the highest dividend yield, currently at 6.4%, and with the capacity to breach the 7% mark again like it did last December, income-oriented investors would be wise to weigh the risks before scooping up the name based solely on yield or the stock's historically low multiples.

Last month, I called Laurentian Bank stock "dead money" after the bank pulled the curtains on an incredibly underwhelming quarter that involved a big miss and expenses that grew out of control thanks to what I thought were sub-par cost controls. It was tough to find any bright spots in the quarter, and although the stock is the cheapest it's been in recent memory, I'd hesitate to recommend the name for yield hunters as the amplified volatility will likely continue.

Moreover, given management's weak track record, I'm not at all confident that management can meaningfully improve its loan book after the “mini-mortgage crisis” it endured a while back. I guess you could say that Laurentian is a bank stock that I’d never buy no matter how much cheaper it got. As Warren Buffett once said: “it’s far better to buy a wonderful business at a good price than a good business at a wonderful price.”

In the case of Laurentian, you’re getting a mediocre (at best) business for a wonderful price (on paper) that may not be as attractive as most multiples would suggest. With multiples likely ripe to expand in the tougher environment that lies ahead, I think Laurentian bank has far too much baggage to warrant having a position reserved for the name in your portfolio.

Stay hungry. Stay Foolish.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:LB (Laurentian Bank of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/23
Date Created
2019/04/01
Author
joefrenette