



## Banking Investors: Swap These Financial Stocks to Reduce Risk

### Description

Rising household debt, falling house prices, slowing credit applications – it's a wonder anyone is still buying shares in Canada's Big Six banks. Indeed, from [financing weed suppliers](#) to exposing itself to a potentially volatile American market, big Bay Street bankers may be too rich by half for the low-risk appetites of domestic investors looking to them for stability.

### Avoid the “compromised” old guard?

Take **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), with its exposure to the U.S. economy, for instance. Scotiabank does substantial business south of the border, and as such may have left itself vulnerable to the potential of a widespread market downturn in the U.S. Even with this leg up, though, it still managed to underperform the Canadian banking industry as well as the TSX index for the past year.

More shares have been bought than sold by Bank of Nova Scotia insiders in the past three months, though not in vastly significant volumes. The usual boxes are ticked by its value, indicating P/E of 10.6 times earnings and P/B of 1.4 times book, while a stable dividend yield of 4.88% is augmented by a good-for-a-bank-stock 6.6% expected annual growth in earnings.

Again, [overexposure to the United States market](#) is an issue with **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). Specifically, this comes from BMO Harris Bank, a large personal and commercial bank; BMO Private Bank, which offers wealth management across the U.S.; plus BMO Capital Markets, an investment and corporate banking arm of the parent banker.

With year-on-year returns of 8.1%, BMO outperformed the industry and the market, and as such seems a safe bet on the face of it. Its one-year past earnings growth of 24.6% shows rapid recent improvement given its five-year average growth rate of 6.1%. Meanwhile, a P/E of 11.3 times earnings and P/B of 1.5 times book show near-market valuation, and a dividend yield of 3.9% is matched with a 3.6% expected annual growth in earnings.

## Try the “insulated” alternatives

An example of domestic alternative on the TSX index would be **Laurentian Bank of Canada** ([TSX:LB](#)). Although its one-year past earnings dropped by 4.2%, a five-year average past earnings growth of 14.3% shows overall positivity, while a P/E of 9 times earnings and P/B of 0.8 times book illustrate Laurentian Bank of Canada’s characteristic good value. A dividend yield of 6.3% coupled with a 9.2% expected annual growth in earnings gives the Big Six a run for their money.

Alternatively, **Manulife Financial** ([TSX:MFC](#))([NYSE:MFC](#)) offers a way to stick with financials but ditch the banks. This ever-popular insurance stock was up 2.33% in the last five days at the time of writing and is very attractive in term of value at the moment, with a P/E of 10.3 times earnings and P/B of 1.1 times book.

Manulife Financial’s 3.5% year-on-year returns managed to beat the Canadian insurance industry, but just missed out on walloping the TSX index’s 4.2%. In terms of the company’s track record, its one-year past earnings growth of 138.1% eclipsed the market and its industry, though its five-year average is sadly negative. Its balance sheet is solid, however, with its level of debt reduced over the past five years from 60.2% to the current 41% today.

## The bottom line

Sidestepping banks may be a shrewd move at the moment, with other forms of financials offering a more insulated route to a broader space. While more regionalized banks like Laurentian Bank of Canada are one option, stocks like Manulife Financial, with its dividend yield of 4.17% and 11.3% expected annual growth in earnings offer a similar but less risky play on the TSX index’s financial sector.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

### TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:MFC (Manulife Financial Corporation)
4. TSX:BMO (Bank Of Montreal)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:LB (Laurentian Bank of Canada)
7. TSX:MFC (Manulife Financial Corporation)

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