



## Here's Why This Famous Investor Is Shorting 3 Canadian Banks

### Description

Steven Eisman is one of the most famous stock market prognosticators of the last 20 years. While you may not recognize his name, he was the starring figure in Michael Lewis' *The Big Short*.

Eisman's greatest skill, it seems, is identifying overvalued stocks.

In 2007, he made massive bets that U.S. markets would collapse. He was one of the only people to call out the housing bubble *before* it burst. Investors who followed his advice made huge profits.

That's why, on April 9, when he appeared on *Bloomberg* to reveal his latest short positions, I paid close attention. His target this time: Canadian banks.

### What's wrong with Canadian banks?

Eisman's thesis on Canadian banks is very similar to his previous bets. He believes that the CEOs of Canada's top banks are "extremely ill-prepared" for the natural credit cycle.

What does that mean?

Essentially, Eisman believes that Canadian banks are overstretched. If the economy slows, many banks will see losses pile up more quickly than they can handle. The CEOs of these banks seem to lack the historical awareness of how powerful these credit cycles can be.

"Canada has not had a credit cycle in a few decades," Eisman told *Bloomberg*. "I don't think there's a Canadian bank CEO that knows what a credit cycle really looks like."

Many investors today believe Canadian banks to be bastions of financial health and prudence. The fact that few analysts are concerned about a downturn is exactly what makes Eisman so nervous. As Warren Buffett often says, it's only when the tide goes out do you discover who has been swimming naked.

“I think they’re unprepared for how much their capital ratios could go down if there’s just a simple normalization of credit, not a calamity, just a simple normalization of credit,” Eisman said.

## Which stocks are in trouble?

Eisman surveyed the Canadian financial sector to identify the stocks most at risk. His three largest short positions include **Royal Bank of Canada** ([TSX:RY](#)), **Laurentian Bank of Canada** ([TSX:LB](#)), and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)).

“They’ll go lower,” Eisman said. “How much lower? We’ll see. Twenty percent plus. That’s about as much as I’ll bet at this point.”

Looking at the data, it’s hard to disagree with Eisman’s thesis. Canadian banks have been making favourable adjustments to their balance sheets and income statements for years in order to boost accounting profits and make their loan books appear less risky.

Few people have noticed—or even cared—given Canada has been in a decade-long credit boom. Few events have occurred since 2010 that have stress-tested the current paradigm.

Notably, Eisman isn’t calling for a collapse, but simply a normalization of the credit cycle. He believes this could happen as soon as this year. If his prediction comes true, it could provide a rare buying opportunity for what otherwise are fantastic businesses.

“What I’m simply calling for is a normalization of credit losses, which Canada hasn’t seen in over 20 years,” he concluded. “And I think the banks, in terms of their reserves and their balance sheets, are woefully unprepared for that.”

While the rest of the market continues to believe Canadian banks to be a “safe” corner of the market, I’m staying on the sidelines. Over the next few quarters, there may be an opportunity to buy when everyone else is fearful.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:LB (Laurentian Bank of Canada)
5. TSX:RY (Royal Bank of Canada)

### PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**Date**

2025/08/21

**Date Created**

2019/04/18

**Author**

rvanzo

default watermark

default watermark