RRSP Investors: Canadian Bank Stocks Continue to Be Core Holdings

Description

Canadian banks have been one of the biggest investing success stories in the last decade, with many of the banks significantly outperforming the S&P/TSX Composite Index, which increased 57%, and the Canadian financials index, which increased 95%.

Canadian bank stocks like **Toronto-Dominion Bank** increased 165%, **Royal Bank of Canada** increased 128%, and **National Bank of Canada** increased 127%. There's this plus growing dividends.

These were the biggest outperformers historically and can be expected to continue to be the best performers, as they leverage their leading positions to continue to grow in a prudent and risk-controlled fashion.

Bank of Nova Scotia's (TSX:BNS)(NYSE:BNS) stock price increased 72% in this period. While this is certainly a good performance, it is lagging the financials index and the best bank performers.

Bank of Nova Scotia is Canada's most international bank, operating in Latin America, the Caribbean, and Asia. As such, it can look forward to higher growth rates going forward, but it also has the highest risk profile. If investors are shying away from the stock, this is a big reason why.

Now, we can add to this the bank's most recent results, which showed worse-than-expected results that highlighted a significant increase in provisions for credit losses to $873 million from $688 million last quarter. This is concerning, because it is a significant increase.

International banking results showed us where the growth is, with year-to-date net income increasing 17%, as loan growth in the Pacific Alliance countries was strong.

Bank of Nova Scotia's valuation is definitely pricing in its elevated risk profile, trading lower than the leading banks like TD and Royal Bank, and investors who are willing to bet on the strong growth afforded to Bank of Nova Scotia could see a significant re-valuation of the shares, which would take them way higher.

The safer Canadian banks, TD and Royal Bank, have continued to chug along nicely this past quarter, with TD reporting a surprisingly strong 4.2% increase in Canadian P&C EPS and a 15% increase in U.S. P&C earnings, as loan growth was 5.6% and lower expenses brought the efficiency ratio up.

Final thoughts

In closing, I think that there is definitely room for more than one big Canadian bank in your RRSP portfolio for steady, growing businesses and dividends, but with a weakening Canadian and global economy, I would stick with the leaders.

With this in mind, the safety and stability of the great outperforming banks, TD and Royal Bank are core holdings, but Bank of Nova Scotia is one to buy for its valuation upside and its exposure to explosive international growth.

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karenjennifer