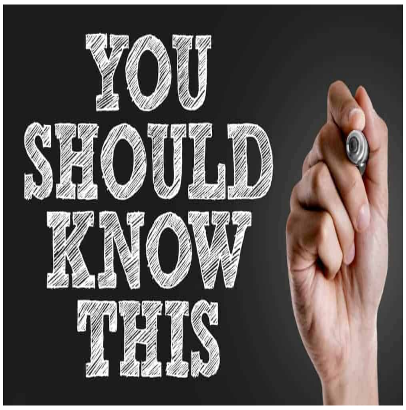

Investors: This Banking Stock Just Hit an Important Buy Signal

Description

Over the years, smart investors have come with with a simple way to make a nice return while sleeping well at night.

All you need to do is buy Canadian banking stocks and then let compounding do its thing. This action alone should lead to at least a 10% annual return over the long term — maybe even higher. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) shares, for instance, have returned more than 12% annually over the last 20 years if you reinvested your dividends.

That alone is a great return. But I believe a patient investor can do even better by following an easy rule. They wait to put their cash to work until Canada's bank stocks hit a 52-week low, and then they pounce.

Although there are currently no Canadian banking stocks trading at a fresh 52-week low, Scotiabank shares are just above their 52-week low, a level set just a couple weeks ago after the bank came out with disappointing earnings.

Let's take a closer look at Bank of Nova Scotia shares and see why they have potential to outperform over the long term.

International exposure

All of Canada's Big Five banks have diversified away from Canada, getting a significant amount of their income from other nations. The United States has been a popular place to go, as these companies are attracted to the similar regulatory structure, lack of language barrier, and ease of travel between the main business and subsidiaries.

Scotiabank has done things a little differently, however, expanding into nations like Peru, Colombia, Chile, and Mexico. I really like this move for a few reasons, including better long-term growth from the region, higher interest rates (which leads to better interest spreads between deposits and loans), and population density. The Latin American market is close to 700 million people, about twice the size of the United States.

The company has grown these foreign operations to the point where they contribute approximately 30% of total profits. And in 2018, net earnings growth from the Latin American operations grew about twice as fast as the core Canadian division.

Canadian banking

Some investors are concerned that a recession will hit Scotiabank shares hard. There's no doubt tepid economic numbers are bad for a bank, and the stock will suffer if the Canadian economy declines.

But it's silly for investors to worry about that. Nobody can predict when a recession will come with any sort of accuracy. These same people have been calling for a recession since 2014 — or even earlier.

All investors should focus on is the long-term health of the business. Scotiabank's Canadian operations are fantastic, churning out predictable profits quarter after quarter. The company has a strong mortgage business; a good wealth management arm; it owns some of Canada's most popular credit cards, and it has exposure to capital markets. The only thing it's missing versus some of its larger peers is an insurance division.

Even if the economy does decline, I'm confident Scotiabank's Canadian banking operations will continue to shine.

Valuation

One good thing about buying near a 52-week low is shares tend to trade at a very reasonable valuation. Scotiabank shares are no exception.

Analysts predict the company will earn $7.10 per share in 2019. Shares currently trade hands at just over $70 each, putting shares at a very reasonable 10x forward earnings.

Another way I like to look at valuation is by taking a quick look at the dividend yield. Scotiabank's yield is currently 4.9%, which is higher than the stock's historical average. It's also higher than every other large bank dividend except one. **CIBC** currently pays investors a 5.4% yield. A higher yield usually means long-term investors are getting a better deal.

The bottom line

Scotiabank shares are currently cheap, trading at just over $70 each at writing. This is close to a 52-week low and represents a terrific entry point.

The time to buy any great company is during periods of weakness. I highly doubt that investors will even remember why Scotiabank stock is weak today five years from now.

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