



## The Canadian Banking Paradox: Buy or Sell?

### Description

Canada's major banks are sitting at a crossroads. Should you buy the Canadian banks, or should you sell? This is a question that has plagued Canadian investors for years now, with both sides of the argument becoming more entrenched as time goes on. Investors have a difficult time decision ahead. It's time to decide: Should you buy or sell banking stocks today?

Until recently, for me, this has never been a hard decision. Buy the banks when they fall to a yield of over 5% and a price-to-earnings ratio (P/E) of under 10. If the price to book (P/B) is close to one, that is great as well. But for the first time in years, I am beginning to doubt this strategy and wonder if it might not be better to sell my holdings.

The current valuations of many of the bank stocks make it a time to buy. But the economic arguments equally portray this as the time to sell. This is a polarizing time for bank investing. In this article, I will provide the two arguments for buying or selling these Canadian banking companies.

### The case to buy

First and foremost, the Canadian banks have a long history of excellent performance. Over the past 50 years, you could pretty much throw a dart at a board, and any of these companies would have delivered solid capital gains and income. Therefore, it is reasonable to assume that they will continue to do so long into the future, no matter the short-term hiccups.

Recently, Canadian economic fears have led to a reduction in the banks' share prices. **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), for example, has fallen to just over \$104 a share. This leaves the company with a [dividend of over 5%](#) and a P/E ratio of around nine times trailing earnings. Historically, this has been a pretty good valuation for an entry point for any Canadian bank.

### The case to sell

While there is a strong historical argument to buy, there is an equally strong case to sell. Global debt levels among governments, companies, and individuals are ridiculous. This could lead to a massive crash, as excessive leverage tends to belie massive fragility in the global economic system. It is

possible that some as yet unknown event could cause the collapse of this debt, leading to a destructive deleveraging process.

The biggest, most worrying sign that something massively terrible is coming is the fact that nothing has happened yet. Debt has not yet collapsed, and economies have not yet gone into recession.

Nassim Taleb, the author of the book *The Black Swan*, refers to this as “the turkey problem.” A turkey lives for years in luxury, comforted by the fact that it is well fed and sheltered. Everything is great, until one day it isn’t. Everything has been great for so long, over a decade, and investors are comforted by the fact that central banks will come to the rescue. But what if there is a reckoning, and nothing can stop credit collapse? What if debt gets so heavy that it is impossible to carry?

In this case, the banks will suffer. If this occurs, you will have to ride the banks down if you have not already sold. In Canada, as with the rest of the world, a credit crunch is a very real possibility. CIBC has already felt the impact of reduced borrowing. Canadian personal lending fell precipitously in the last two earnings reports, including a 2% year-over-year [fall in Canadian personal](#) and small business banking in the second quarter of 2019. This could be a sign of poor times to come as individuals become more leveraged and thus less able to borrow over time.

## So, which is it: Buy or sell?

As a long-term holder of the Canadian banks, I personally lean towards buying them as long-term investments. It’s certainly true that there are dark clouds on the horizon and that it is quite possible that the banks will fall in response. For my part, I will use this as a buying opportunity. I will continue to buy these banks, keeping my 5% weighting intact, even as the banks fall, and hold for the long term.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

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**Date**

2025/08/27

**Date Created**

2019/06/22

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