



## The 2 Best Banks for Your Buck

### Description

Canadian bank stocks are under pressure again, as equity markets look to recover after a nasty week that saw China hinting at potentially escalating the trade war to a currency war.

Gold has been surging, and bank stocks are likely going to continue to tread water as we enter the next round of earnings releases, which everybody seems convinced will be a severe disappointment yet again. Now that analysts have had a chance to downgrade the Canadian banks to “hold” after various short “attacks,” it appears as though now may be the best time to initiate a contrarian position now that most weak-handed investors are subscribed to the thesis that touts the imminent demise of the banks.

The outlook for the banks is bleak, and there aren’t really any catalysts that could bring the banks to new highs. But with all the non-stop pessimism, the most injured of bank stocks may be overdue for an upwards correction on “better-than-feared” results.

Today, many investors are getting ready for further credit deterioration, rising provisions, out-of-control expenses, weakening NIMs, sluggish capital markets activities, weak loan growth, and all the sort. Now that analysts have set the bar low with their hold ratings and lower earnings expectations, the stage appears to be set for contrarian stock pickers.

Here are two top banking bets that contrarians may want to look to as we approach the end of the third quarter.

### CIBC

**CIBC** ([TSX:CM](#))([NYSE:CM](#)) has a 5.6% dividend yield and is easily one of the [most attractive](#) contrarian bets for those seeking passive income. While the bank has posted some of the worst numbers over the last three quarters, I think the reaction has been exaggerated.

The stock has fallen back into a bear market, and as shorts continue to talk down the name, I think a mother of all short squeezes could be on the horizon should CEO Vic Dodig and company have what it

takes to patch itself up after excessive provisions for credit losses.

CIBC is by no means a premier bank stock. It's a more aggressive lender, and it's been put in the penalty box because of this. What has me enticed is the valuation. The stock trades at 7.9 times next year's expected earnings, which is absurdly cheap and appears to be pricing in a catastrophe when in reality, the most probable outcome is more benign than most investors have been led to believe.

## Toronto-Dominion Bank

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is the baby that's been thrown out with the bathwater. It didn't seem to matter that TD Bank had bettered earnings expectations in three out of the last four earnings reports, the stock has still remained in limbo with the broader basket of bank stocks.

Despite having one of the most conservative loan books with the least-volatile retail-centric cash flow streams, many investors have thrown in the towel on the bank just because it's a Canadian bank.

In a prior piece, I'd noted that TD Bank was a likely candidate that was [the only good apple](#) in a bad bunch. I think that's still the case, and when it comes time to rally, TD Bank will be among the first banks to reach a new high.

TD Bank has been a top performer in spite of the headwinds, but the stock still trades at a discount at 10.1 times forward earnings. The 4% yield is close to a high point and makes the stock worthy of picking amid the challenging environment.

## Foolish takeaway

TD Bank is a premier bank that's been unfairly punished and is a terrific bet for those who want downside protection. CIBC is a laggard that's been overly punished and offers immeasurable value for those with a stomach for volatility. If I had to choose one today, I'd go with CIBC, because it provides the most upside, but, at the same time, the name will likely be very painful to hold over the near term.

Stay hungry. Stay Foolish.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Stocks for Beginners
4. Top TSX Stocks

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)

3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:TD (The Toronto-Dominion Bank)

## **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## **Category**

1. Bank Stocks
2. Dividend Stocks
3. Stocks for Beginners
4. Top TSX Stocks

## **Tags**

1. Editor's Choice

## **Date**

2025/08/15

## **Date Created**

2019/08/09

## **Author**

joefrenette

default watermark

default watermark