Dividend Investors: Build Your Bank Holdings Today

Description

It's been the better part of a year since banks have been a great buy. Over the last few weeks, bank stocks have been moving steadily downwards. The downward pressure has moved many bank stocks to the point where they are becoming compelling buys. For me, a simple level to look at is when the dividend yield pushes above 5%.

Two stocks, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), are currently sitting at an attractive buy point. Both stocks have pushed above the 5% threshold, with BNS at 5.14% and CIBC at 5.65%. If you own 100 shares of these two companies, you will receive a total of $908 a year at the current dividend payout.

Luckily, it is also likely that the stocks will raise their dividends, as they have continued to do over the past few years. CIBC recently raised its yield by almost 3%, and BNS raised its quarterly payout by a similar 2%.

The Canadian housing market is extremely elevated. Interest rates are pushing lower once again, causing bubble concerns to rise once more. The consumer is highly indebted, making them not only a credit risk, but also an empty well for further loan growth. A global recession looms on the horizon, with trade uncertainty adding more fuel to the fire.

There are so many reasons to be pessimistic on the banks, and traders have capitalized on all of these. Short-sellers have pounced all of these issues, pushing their shares down considerably.

But if you can look past the noise to the historical, decades-long performance records the banks possess, you will quickly be able to see how these shares can perform well for you over the long term. Over the past 25 years, if you had held these shares without selling (even through the depths of the financial crisis) you would have earned a total capital return of 507% from CIBC and 956% from BNS. That is not including dividends, and without investing new shares over that time frame.

They are certainly not expensive at this level. As of this writing, BNS is trading at a trailing price-to-earnings multiple (P/E) of 10.1 times earnings and CIBC at 8.6 times earnings. On a price-to-book basis, both are trading at just over book value at a multiple of 1.28. These are historically attractive valuations that signal a buy point for the Canadian banks.

The risks are real, but don’t panic

Although I make the case that these stocks are attractive at this level, this does not mean that they will immediately fly to the moon. The risks facing the stocks could have near- to mid-term effects on the stocks, causing them to fall further. For this, there is a simple 10% rule. Buy up to your cap (say 5% of your portfolio, for example) now. When the stock falls 10%, buy up to the cap again. Rinse and repeat until the stock hits a bottom.

The bottom line on the banks

Buying the Canadian banks when the multiple has hit 10 times earnings or below with a dividend of 5% or more has been a historically good decision. Combined with a long-term investing mindset, these stocks can build your TFSA significantly for the future.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CM (Canadian Imperial Bank of Commerce)

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