



## Long-Term Investors: Sell Your Bank Stocks: Buy These High-Quality Finance Companies Instead

### Description

Bank stocks are great for slow and steady appreciation, but they have their limits and their times of underperformance.

As the economy tightens and global central banks consider rate cuts and injecting stimulus, banks are starting to feel the pressure, especially with decreasing net interest margins.

It's clear that a number of Canadian banks are getting ready for a period of slower growth, as **Bank of Nova Scotia** reported last week that it was recession ready. In **Bank of Montreal's** earnings release this week, it highlighted that it's cutting 5% of its workforce.

While these are prudent moves because they are proactive rather than reactive, it doesn't change the fact that the [bank stocks](#) will most likely underperform in the near future.

That doesn't go for all finance companies, however, as some specialty finance companies with their own strategic plans have been having great years in 2019 and continue to witness high levels of growth.

Two of these high-flying stocks to consider today are **goeasy Ltd** ([TSX:GSY](#)) and **Alaris Royalty Corp** (TSX:AD).

### Alaris Royalty

Alaris is one of the top stocks on the **TSX** for passive-income seekers, especially because it's always trading at a level that offers an attractive dividend yield.

The company pays out almost all of its earnings, giving it a large yield to begin with, but the market has always given it a high yield because of the higher risk nature of its cash flow.

It mainly invests in small businesses, mostly in the United States, aiming to gain either equity

exposure, a royalty payment or a combination of both.

Naturally, relying on a portfolio of small businesses' potential growth and ability to maintain their distributions is going to be higher risk, which is why it's understandable that Alaris' yield is so high.

Alaris has proven over the years that it makes high-quality investments and is able to maintain and increase its dividend consistently, resulting in its inclusion on the Canadian Dividend Aristocrats list.

Going forward, it continues to look for more high-quality deals, while diversifying its portfolio so that no investment contributes more than 10% of its revenue.

Today, its monthly dividend yields roughly 7.6% and it trades at a price-to-earnings ratio of just 11 times.

## **goeasy**

goeasy has what many would consider to be a similarly higher risk lending model in which it lends to sub-prime borrowers in Canada; however, goeasy has proven that it can monetize the risk incredibly and is one of the best growth companies on the TSX.

Its stock is already up roughly 60% this year, approximately 180% in the last three years and more than 6,500% since 2001.

The growth in its loan book has increased substantially the last few years, and now sits above \$1 billion. This huge growth has resulted in revenue increasing at a compound annual growth rate (CAGR) of 12.7% since 2001 and a 22.7% CAGR of diluted earnings per share.

Although its business would be considered higher risk, its average loan has an annualized percentage rate (APR) of 29.9%, and goeasy is therefore cashing in on at the risk.

Furthermore, the company's 90-plus day delinquency rate has been consistent the last five years at roughly 4%; meanwhile, its net charge off rate has also stayed consistent at about 13.5%.

The key for goeasy has been to manage its charge-offs and build a strong portfolio, which it clearly has done well. Its break-even net charge-off rate is 24.6%, so goeasy could see an 85% rise in charge-offs before it's in danger of losing money.

It pays a small dividend that yields roughly 1.8%, albeit it reinvests the majority of its earnings in order to continue to grow its portfolio of loans. This is prudent given that the returns it's been generating are massive and some of the best in the country.

## **Bottom line**

Both stocks are some of the top financials you can own. Whether you choose Alaris for a high-quality, high-yield stock or goeasy for its explosive growth potential, both stocks will excel in 2020 and outperform the Canadian banks.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:GSY (goeasy Ltd.)

## **PARTNER-FEEDS**

1. Business Insider
2. Msn
3. Newscred
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