Revealed: My Top Bank Stock for 2020

Description

Canadian banks have slowly made investors wealthy for generations now.

It hasn't really mattered which one you chose, either. As long as you kept your money in one of Canada's six largest banks, it has performed exceptionally well. Including reinvested dividends, the sector has easily surpassed 10% annual long-term returns.

It's been an excellent place to grow your money.

I believe investors can add a little oomph to those succulent long-term returns by doing a little selective buying. If they choose an undervalued bank stock today, they should get a little extra return as that company outperforms its peers.

It isn't much — I'm talking 1-2% annually if you hold for a decade or so — but it all counts when you're tallying up how much you've saved toward retirement.

Let's take a closer look at my favourite bank stock for 2020, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

The opportunity

Let's begin by talking about the crown jewels, Scotiabank's Canadian operations.

Canadian banking is such a fantastic business, yet hardly anyone really appreciates it because the top companies have dominated the industry for so long.

Scotiabank is a solid number three in Canada, enjoying advantages like mortgage default insurance on its riskiest mortgages, a solid — and growing — wealth management division, a good selection of credit cards, and huge investments in technology that are making all these divisions more efficient by reducing labour.

Many investors have claimed fintech companies are on the verge of taking some serious market share away from the banks, but they couldn't be more wrong.

Many of these companies fizzle out before accomplishing much of anything. The banks then acquire any that look promising.

It isn't just fintech companies that eventually face the might of the Canadian banking oligopoly. Wealth managers, specialty finance companies, and alternative lenders eventually run into serious competition from the banks.

Oftentimes the result is the same: a bank makes a reasonable offer and management of the target realize life is much easier when you're on the same team as the competition.

The last few paragraphs could be said about every member of the Canadian banking sector. They all dominate in their own unique way, but these days are mostly just a play on the Canadian economy. So what separates one from another?

The answer is in their other operations. This is where Bank of Nova Scotia should really shine over the long term.

Latin American operations

Scotiabank has been quietly growing operations in nations like Mexico, Peru, Colombia, and Chile for two decades now. Thanks to consistent efforts to expand organically and via a number of acquisitions, these assets have grown to the point where they make up about 30% of total earnings.

I like Latin America as a long-term growth market for a few reasons. Interest rates are persistently higher, which leads to excellent interest margins. Folks earning more income will naturally need greater access to banking services, which helps organic growth.

And these economies should grow at a higher rate than Canada's over the long term. Remember, banking is essentially a leveraged bet on the local economy.

Yes, there will be hiccups. Recent protests in both Chile and Colombia have made investors nervous, for example. But these are just growing pains. The long-term trend should deliver excellent results.

A great dividend

Another reason I'm bullish on Scotiabank shares is the company's fantastic dividend. The payout is currently 4.9%, and it has been raised each year for nearly a decade now.

The company hasn't missed an annual dividend since the 1800s. I think it's safe to say you can count on the payout.

The beautiful thing about bank dividends is they help support the share price. Investors will always be attracted to these payouts, which helps smooth any bear markets. As short-term traders dump shares, long-term investors buy, enticed by the yield.

The bottom line

Scotiabank shares are a little depressed today because of continued political uncertainty in Latin America, which has created a pretty solid buying opportunity.

But act today: if you don't, you might miss out on a chance to buy what looks to be the best-performing Canadian bank stock in 2020.

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