



## Buy This Underrated Canadian Bank for CRA-Proof Passive Income

### Description

A dollar within your TFSA is worth far more than a dollar outside a TFSA given the wealth-creating effects of long-term tax-free compounding (reinvesting those dividends!), especially if you're a young investor who's decades away from retirement.

As such, it's vital to invest with your TFSA and not speculate on the "sexy" play at any given point in time. Whether it be cryptocurrencies, marijuana, or tulips, the siren song of such get-rich-quick plays ought to be avoided, because even if you're lucky enough to make a quick buck off trading such assets, the [CRA could still come knocking](#) in search of gains generated within a TFSA.

Stick with boring dividend-paying plays that can hold their own when times get tough. Consider the [big banks](#) amid the current credit downturn. Profitability growth is looking modest as provisioning continues to take a toll, but while others throw in the towel to look for quicker riches, now may be a great time to add to your TFSA's core with a proven outperformer like **National Bank of Canada** ([TSX:NA](#)), which recently outclassed its bigger brothers in the Big Five during one of the most unfavourable industry conditions in years.

National Bank isn't going to make you rich quickly. It'll make you rich slowly, though thick and thin, through its growing dividend and risk-off strategy that'll help the firm shine when the going gets tough.

Perhaps the best reason to consider National Bank, the number six Canadian bank, is the brilliant and underrated managers running the show. Most investors slapped National Bank stock with a significant discount because of its domestic overexposure and substantial weighting in the Quebec market. In the last quarter, the perceived negative trait of National Bank (overexposure to Quebec) ended up being a major positive as Quebec outshined most other provinces.

Moreover, to the envy of the Big Five, National Bank clocked in some best-in-class ROE numbers of nearly 19% for its last quarter alongside EPS numbers that rose 11%. It's as though National Bank didn't get the memo that the Canadian banks are in a highly unfavourable environment, doomed for surging provisions and sluggish growth.

CEO Louis Vachon's prudence is finally paying off, and as the banks look to suffer more of the same in

2020, I think a more significant premium ought to be slapped on National Bank as cautiously optimistic look for a “safer” way to bet on an industry that continues to endure challenges on the road to credit normalization.

National Bank has historically traded at a discount to its bigger brothers, but after a remarkable year, I think those days are over. The stock trades at 10.8 times next year’s expected earnings and 1.96 times book, both of which are substantially higher than that of the stock’s five-year historical average multiples of 9.85 and 2.93, respectively.

The cheap bank is now known as the underdog that made a name for itself in 2019, and it’s a buy right here as we head into what’s likely to be another challenging year for the banks.

Stay hungry. Stay Foolish.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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## Author

joefrenette

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