Forget Bank Stocks: These 2 Finance Companies Will Make You Rich

Description

Canadian bank stocks are always important when building a portfolio. They are some of the largest, most profitable, and reliable companies you can own, which makes owning shares paramount to your long-term success.

You can, however, alter the weighting of your bank stocks, so you still have your exposure, but you can use the extra funds to buy stocks that have become more valuable.

If you're selling bank stocks and want to keep your allocation to financial stocks the same, though, you'll have to find some top financial companies to buy instead.

Otherwise, it doesn't make sense to sell the bank stocks, unless you are lowering your portfolio weighting in the sector all together.

Luckily, there are two financials, that are expected to grow their businesses much faster than the banks are over the next few years, which will be a much better place to invest than in the banks.

The first stock is **goeasy** (TSX:GSY), an alternative finance company that has a loan business and a furniture leasing business.

The loan business primarily services non-prime customers and has been highly profitable thanks in large part to the strong management and ability to manage risk and keep charge offs consistent.

The makeup of its business and its unique omni channel approach to reaching its customers have allowed goeasy to grow its business rapidly and reap the rewards.

Since 2001, it's grown revenue at a compounded annual growth rate (CAGR) of 12.7% per year and its net income at a CAGR of a whopping 29% per year.

It's still a relatively small company too, just hitting the $1 billion market cap recently, meaning there is plenty of room for the stock to continue to grow.

The growth has been its fastest in more recent years with its earnings before interest, taxes, depreciation, and amortization (EBITDA) growing nearly 140% since 2015.

So, despite goeasy's stock being just off its all-time high, and up more than 75% over the last 12 months, it still trades pretty cheap with an enterprise value to EBITDA of just 8.5 times.

The other top financial stock you can consider is **Chesswood Group** (TSX:CHW), a specialty finance company that offers loans to small- and medium-sized business across Canada and the United States.

Chesswood, though it operates in the finance industry, is a lot different than goeasy. It can be thought of as sort of a hybrid between goeasy and the banks.

Chesswood's operations aren't quite as high risk as goeasy's business lending to non-prime consumers, yet it's still higher risk than a traditional bank stock.

Its business consists of subsidiary lending businesses that finance equipment purchases and other small loans for business across Canada and the United States.

Its business isn't as naturally profitable as goeasy, but because it's also lower risk, Chesswood employs debt to increase its financial leverage, which allows it to post attractive return-on-equity numbers, consistently around 15%.

It's also attractive for income-seeking investors, as it pays out the majority of its earnings through its dividend, which currently yields a whopping 7.8%.

Bottom line

Gaining exposure to one or both of these stocks and holding them over the next couple of years while bank stocks face increased headwinds seems like a prudent investment decision today.

Although both these companies offer far better returns, it's because they take on more risk lending to non-prime borrowers or those with lower credit; therefore, the stocks are higher risk as well.

That's why it's recommended that investors still have some exposure to the banks, as you'll want that guaranteed stability to help manage your overall risk.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CHW (Chesswood Group)
2. TSX:GSY (goeasy Ltd.)

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