



It's the Best Time to Buy Canadian Banks in Years

Description

If you've been patient, you have spent years waiting for a time to buy the Canadian banks at a discount. They weren't overly expensive over the past year, but they also weren't screaming buys. Right now, these dividend machines are bargain hunters' dreams.

Even after the run-up in their stock prices, several of these banks still have yields well in excess of 5% or 6%. Depending on the amount of risk you want to take on, you will be able to lock in some fantastic yields for decades if you buy them at these levels.

The level of risk in each bank is well reflected by the yield of each stock. The stocks with the highest risk have the highest yields, offering greater potential rewards in the long run.

The “riskiest” big bank

In my opinion, the one with the greatest risk is going to be **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)). I have put “riskiest” in quotations, since every one of these banks is fantastic as a long-term hold. Its riskiness comes, I believe, from its focused exposure to the Canadian economy, especially Canadian housing.

Jobs are being lost at an incredible rate, after all, with over a million people being unemployed during the month of March. Even more frightening is the fact that almost half of these lost jobs were full-time employment. If this were to continue for an extended period of time, CIBC could be affected to a much greater degree than some of the other stocks.

However, this long-time [dividend payer](#) has a lot to offer at this level. It has a price-to-earnings (P/E) ratio of only seven times trailing earnings, for one thing, and is trading right at its book value. Historically, that is extremely cheap for these Canadian institutions.

It also has a dividend yield of 6.87% at the current level. Certainly, you could have bought it with a much higher yield a couple of weeks ago, but even at this level, you are still looking to have some excellent capital gains over the coming years. If the stock regains its highs, you could potentially make another 30% on the current stock price.

A “safer” option

I have to state that if the economy truly tanks, none of these stocks will be absolutely safe. But if you are looking for a bank with relatively less exposure to the Canadian housing market, you might want to stick with **Toronto-Dominion Bank**. The bank is practically an American bank as much as it is Canadian, spreading its risk significantly south of the border.

This bank is slightly more expensive than CIBC. Its P/E ratio is sitting at nine times trailing earnings, and its price to book is 1.31 at these levels. While it seems expensive compared to CIBC, this valuation is still far lower than is historically the case. Its dividend is [also generous at 5.27%](#).

The risks

Don't kid yourselves, these stocks are not without risk. The Canadian banks have been dividend-growth champions for a long time, but they have been known to pause dividend growth. During the financial crisis, the banks did exactly that. The record levels of unemployment will almost certainly hurt earnings in the near term, which could put pressure on dividends.

The bottom line

Bank stocks are cheap right now because there are truly great risks facing them. You will never find a cheap stock when everything is amazing. You only find them during times of crisis when you have the guts to stick in. Risk is what makes companies cheap. You, as an investor, have to decide whether you want to take the risk or not.

I believe that Canadian banks are compelling buys today. Historically, their dividends have been strong even if some have had to pause dividend increases in rare times. They may be under pressure in the short term, but you can rest assured that they will be great stocks to buy and hold for years.

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