



TSX Bank Stocks: The Best Investment Today

Description

Many investors have been acting prudently and taking advantage of the attractive valuations in **TSX** stocks. One sector, however, that has generally been less talked about so far are the TSX bank stocks.

The focus so far has been on defensive names like utilities and consumer staples. Or on the flip side, investors have been looking at stocks with massive discounts, such as a stock like **Air Canada**, which has additional risk.

Bank stocks have slowly become attractive, though, and it could be worth adding a position at these levels.

The Canadian banking sector is well known by investors to be one of the most stable in the world. That's one of the main reasons why TSX bank stocks have been such excellent long-term investments for Canadians.

The last time bank stocks were this cheap was nearly five years ago. So, the discounts in this market crash offer big [long-term investing](#) opportunities.

Not only are they top long-term investments, but they can help to make up the core of your portfolio.

However, like all other companies, bank stocks aren't without risks. And with financials, often risks aren't known until it's too late. So, to try and figure out one bank's risk versus another is a challenging task.

In addition, these banks have entirely different international operations that could severely affect the performance of the bank. Plus, each bank has different exposure to other subsidiaries, making each company's position unique.

Investors who want exposure to TSX bank stocks could consider an ETF. This way, you would still have all the upside exposure while mitigating some risk.

TSX bank stock ETF

To reduce company-specific risk, investors could consider a bank ETF like **BMO S&P/TSX Equal Weight Banks Index ETF** ([TSX:ZEB](#)).

The ETF [gives investors exposure](#) to the top six banks in Canada, with roughly equal weighting of each bank stock. By weighing each stock equally, it gives you exposure to all the major Canadian banks and helps decrease risk if one has more unforeseen risk than others.

You may be interested in bank stocks because you think the sector is oversold. Or maybe you just want to increase the portion of your portfolio devoted to financials.

Either way, if you want exposure to the exceptional Canadian banking sector, then an investment in the equal-weight bank ETF may be the best choice for you.

As of Monday's close, the fund is down nearly 25% from its highs. Plus, at these levels, its dividend yields roughly 4.8%, an attractive return from the reliable banks.

Covered call bank ETF

Another option for investors looking to gain exposure to the banking sector is through **BMO Covered Call Canadian Banks ETF** ([TSX:ZWB](#)).

Although the covered call ETF has exposure to the same six TSX bank stocks as the equal-weight ETF, the fund offers investors a different way to invest in the sector.

A covered call strategy is a little more complex than just investing in the stocks. However, the gist of it is that the fund will sell call options in the future for its bank stocks at prices above where stocks are trading at today.

The company then can use the proceeds of the options to pay out to investors, effectively increasing the dividend yield. That's why the covered call ETF has a trailing dividend yield of more than 7%. This is compared to the equal-weight ETF's yield of 4.8%.

Because you are selling options to other investors, giving them the right to buy the bank stocks at a predetermined price, the fund effectively caps its potential gains.

This means that a covered call strategy will be better for investors who believe that bank stocks will recover but slowly. The fund is made to provide investors with more income potential than capital gains. It's also made for an environment where there is low volatility, and TSX bank stocks appreciate slowly over time.

Bottom line

Bank stocks are some of the most attractive TSX stocks on the market. The sector is still significantly

undervalued and presents a major long-term investing opportunity.

Both these ETFs offer investors unique ways to gain exposure. But, more importantly, they help reduce investors' risk.

CATEGORY

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1. TSX:ZEB (BMO Equal Weight Banks Index ETF)
2. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

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