The “Big Short” Guy Says Stay Away From These Canadian Bank Stocks

Description

You likely know of Steve Eisman, even if you’re not familiar with his name. He’s the inspiring figure behind *The Big Short*, which stars Christian Bale, Steve Carell, Ryan Gosling, and Brad Pitt. The movie chronicles Eisman’s efforts to warn the market about the U.S. housing bubble.

Despite initial skepticism, Eisman was proven correct in his predictions. His profits totaled in the *billions*. But that was back in 2008. This time, he has a new target: Canadian bank stocks.

Here’s the story

Last year, *Bloomberg* reported that Eisman expected “+20%” declines for Canadian bank stocks. His list included **Royal Bank of Canada** (TSX:RY)(NYSE:RY), **Laurentian Bank of Canada** (TSX:LB), and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

“Canada has not had a credit cycle in a few decades, and I don’t think there’s a Canadian bank CEO that knows what a credit cycle really looks like,” Eisman said. “I just think psychologically they’re extremely ill prepared.”

Long-term investors of Canadian bank stocks were likely skeptical. For more than 20 years, the country’s banks had been a pillar for stability and reliable returns. But this phenomenon is *exactly* what got Eisman scared. As the saying goes, good times breed complacency.

“I’m not calling for some enormous, massive losses,” Eisman told *Bloomberg*. “The Canadian banks are not going to have to be bailed out by the Canadian government. There’s none of that.” All he’s arguing is that the share prices weren’t factoring in the growing possibility of credit normalization. That mere slowdown in growth could send bank stocks spiraling.

While the coronavirus pandemic can be written off as an unforeseeable event, it's exactly the type of growth headwind that Eisman predicted. The collapse in oil prices, which have cratered by two-thirds since 2020 began, is yet another challenge for Canada's banks. As Eisman predicted, RBC,Laurentian, and CIBC shares have fallen by 20% or more since the downturn began.

How to invest in bank stocks

After the correction, Canadian bank stocks have gotten cheaper, but some are still not *that* cheap.

Over the past decade, for example, RBC stock has traded at roughly two times book value. The downturn has brought that valuation down to 1.5 times book value. During the 2008 financial crisis, the price-to-book ratio bottomed at 1.2 times book value. The market has priced in a deterioration in business, but nothing on the scale of previous bear markets.

CIBC stock is a different story. Over the past decade, shares have averaged a valuation of two times book value. The recent crisis has pushed the price down to one times book value. That's lower than the 2008 financial crisis bottom of 1.2 times book value. So, historically, CIBC shares have traded roughly in line with RBC stock. Yet the downturn has punished the firm much harder.

If you're looking for discounted investments, start with companies like CIBC, not RBC. And when you're shopping for cheap stocks, remember: just because you're looking at bank stocks, don't assume they're all bargains.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:LB (Laurentian Bank of Canada)
5. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks

2. Dividend Stocks
3. Investing

Date
2025/08/22
Date Created
2020/04/15
Author
rvanzo