



## Buy Alert: 2 Canadian Bank Stocks With 6% Yields

### Description

Bank investors are able to own stocks with greater than 6% yields at the moment, which is historically amazing. Thanks to poor borrowing choices from many individual Canadians, corporations, and the government, our economy is now at risk. The risk of a dismal economic future is driving down bank stocks considerably.

For years, my general rule of thumb has been to start buying bank stocks when their yields hit 5%. I thought that 5% was a decent starting yield. Rarely over the past decade have yields gone over that level on these stocks, so I assumed that this would be the perfect time to get in. At the moment, many prominent Canadian banks have yields that have exceeded this level. It is time to buy.

### Two banks with 6% yields

Both **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) have yields that are now far in excess of 5%. In fact, these two dividend giants have yields in excess of 6%, with BNS's yield sitting at 6.19% and CIBC's at 6.22% at the time of this writing. Historically, these banks' yields are more in the 4-5% range, so getting them with this high a payout is very enticing.

When you combine the present yield with the fact that these dividends have grown over time, the argument becomes even more appealing. BNS hiked [its dividend](#) last August by \$0.03 a share. CIBC did the same recently, raising its dividend by \$0.02 in February, just before the stocks collapsed. The dividend history of these institutions is excellent, but that doesn't mean that there might not be bumps ahead.

### The fear is real

These stocks have real risks ahead of them — risks that might derail their dividend records. The global pandemic slaughtered bank earnings in the second quarter. [Earnings at BNS](#) were down 42% year over year due to significant loan loss provisions. The story was even worse at CIBC where net income was down a staggering 64% year over year. Again, this was primarily due to provisions for loan losses.

The provisions and hits to net income are largely due to the unknowns facing the economy as we come out of the pandemic. How bad will it truly be? How many people will actually default on their loans? CIBC's exposure to the Canadian market is higher than BNS, so obviously the short-term impact is more apparent.

On the bright side, however, so far these are just provisions for loan losses, meaning they are in preparation for potential losses that are not yet realized. Hopefully, the loan-loss provisions are overcautious. Should that be the case, and should the Canadian economy recover faster than expected, earnings will pick up quickly since fewer provisions will be required and those will be added back into earnings.

## The bottom line

Stocks are never cheap when everyone is on board and everything is rosy. They are cheap where there is a perceived, very real threat on the horizon. In the case of the Canadian banks, that threat is the massive debt loads of consumers, businesses, and the government has chosen to take on. Debt makes the economy fragile and susceptible to an emergency like that which we now face, and the banks are dependent upon the economy.

There is a very real possibility that banks will be hit rather hard in the years ahead thanks to irresponsible borrowing by individuals and corporations. There is a reason for the reduced share price in both of these stocks. If a real estate crash were to occur and businesses were to go bankrupt, then the banks could have a problem.

However, it is likely that the banks are being overcautious. In that case, as the fear subsides and the economy recovers the stock price should continue to tick up. In the meantime, you are picking up great long-term performers like BNS and CIBC with high historical yields. Over the course of many years, you will be happy with the price you paid and the yield you receive.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CM (Canadian Imperial Bank of Commerce)

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### **Author**

krisknutson

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