



Passive-Income Investors: Canadian Banks Are Just Getting Started

Description

If there's anything Canadian passive-income investors have learned over this brutal year, it's never to count out the Canadian banks, even when the macro outlook seems hopeless. Canada's Big Five banks are among the bluest of the blue chips on the entire **TSX Index**. They're also some of Canada's oldest financial institutions, having operated through more than their fair share of crises, crashes, and credit downturns.

They're among the most sophisticated Dividend Aristocrats with some of the oldest dividends in Canada. And although unprecedented times call for unprecedented actions such as dividend cuts, passive-income investors must remember that the big banks have been tested with crises in mind and that they've rebounded from meltdowns in their share price many times in the past.

When things head south for the economy, things tend to always find their way back to the banks. As firms become unable to meet their debt obligations, it's the bank that's left holding the bag, as was the case back in the Financial Crisis of 2008.

Never bet against the Canadian banks

In the case of the 2020 coronavirus crisis, the impact of which has [varied](#) between industries, with small businesses taking the brunt of the damage, it's the big banks with greater exposure to small businesses and other hard-hit industries (think oil and gas) that took the biggest hit to the chin when the market melted down back in February and March. **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) was a bank that didn't have the best loan book in the world heading into a global pandemic. As a result, the stock collapsed, nearly shedding half of its value before staging an epic rebound in the months that followed.

Although it was horrific when BMO led the downward charge for the Canadian banks, I'd urged passive-income investors to go against the grain, even if it hurt from day to day. As someone wise once said, few words are more dangerous in the world of investing than "things are different this time around." While the pandemic acted as the worst economic disruption since the Great Depression, I'd encouraged Canadians to not give up on their bank holdings while their dividends were swollen and

their valuations at the floor. Why? Not because I knew that we'd be in for the timely advent of a safe and effective COVID-19 vaccine by year's end, but because history suggested that the banks would come [soaring back](#), as they did following prior implosions.

Banks are among the first to crumble at the first signs of crisis, but they're usually also among the first of names to come roaring out of the gate when the macro picture begins to show subtle signs of improvement.

Moreover, the banks' capital equity tier one ratios had more than enough wiggle room to make it through the worsening environment that was just ahead. BMO may have taken a hit to the chin, but it was far better capitalized than it was in the lead-up to the Financial Crisis, and that should have made contrarians confident enough to hold their nose and do some buying, despite all the negativity surrounding them in the heat of the panic.

Passive-income investors: The Canadian banks haven't looked this good in a while

With a firm with a track record as long as the Canadian banks, it can literally pay big dividends to stay the course and not overreact to the matters that are troubling other investors. A handful of analysts turned their backs against heavily pressured names like **TD Bank** in October, right before the banks blasted off on the back of promising vaccine news in early November.

If you blindly followed the analysts, you missed out big time. And with the end of the pandemic in sight, I still think many of today's Canadian banks are solid buys before COVID is finally conquered, and the banks have a chance to continue roaring back, potentially to make new all-time highs.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Investing
4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Investing
4. Stocks for Beginners

Tags

1. Editor's Choice

Date

2025/08/19

Date Created

2020/12/18

Author

joefrenette

default watermark

default watermark