2 Banking Giants to Buy As Commission-Free Trading Comes to Canada

Description

Canada's top banking giants are about to start hiking their dividends once again. And while you could do well by investing in any one of the Big Six, I think the following two names offer the greatest total returns over the next 18 months. So, without further ado, let's get into the names, as you look to bolster your passive income portfolio just in time for the autumn season.

A top-two banking giant to buy right now

National Bank of Canada (TSX:NA) is the number six player of the Big Six basket of Canadian bank stocks. It may be the smallest, but it should not be overlooked, especially after making it through 2020 in a more resilient fashion than some of its bigger brothers.

The Canadian banking giant dropped a bombshell on Monday, announcing that it had slashed its trading commissions to zero. With commission-free trading already being enjoyed by many traders in the U.S. market, it was just a matter of time before a big bank brought it to Canada. The first bank to do it in Canada was National Bank. I suspect the other Big Six banks will follow suit over the coming weeks and months. Otherwise, the allure of zero commissions could cause many young investors to switch banks with minimal hesitation.

The news wasn't too material on NA stock. Shares only crept 0.6% higher on the day, but I thought shares should have really blasted off, given it's bringing the fight to its banking peers and the potential for switching that could be in the cards if its peers don't end up scrapping their commissions in response.

At the time of writing, NA stock is just shy of $100. Shares trade at 13.4 times trailing earnings alongside a 2.9% dividend yield. After outpacing the broader **TSX** year to date, surging over 39%, I think more of the same can be expected from a bank that doesn't get enough respect from Canadian income investors.

A discounted dividend stud

Which big bank could be next to scrap commissions on trades? Perhaps **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) could be next to follow suit by ditching commissions on its WebBroker platform. It certainly wouldn't be the first time that the Canadian banking giant responded to the race to zero commissions.

As you may remember, TD Ameritrade followed suit shortly before Charles Schwab acquired the business in what was then a US$22 billion deal. The deal has since paid off big-time for TD.

With National Bank levelling out the playing field, I think TD Bank will have few problems by doing away with commissions itself. The WebBroker platform is quite well-known and could draw in a considerable amount of new business away from the non-bank Canadian brokers like Questrade that have lower barriers to entry (lower upfront deposits).

With rates likely to rise over the next three years, TD stands to benefit more than its peers from net interest margin expansion. Scrapping commissions won't impact TD nearly as much as some think. In fact, it may be a net positive over the longer term.

As the cheapest bank based on price-to-earnings (currently just over 11 times), I continue to favour TD Bank stock as the banking giants feel the pressure to do away with trading commissions for good.

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2. TSX:NA (National Bank of Canada)
3. TSX:TD (The Toronto-Dominion Bank)

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