3 Financial Stocks to Consider As the Sector Slows Down

Description

If we base the growth on the **S&P/TSX Capped Financials Index**, the financial sector grew at a decent pace from the start of the year to about early June and rose about 22.8% in five months. Since then, the growth has slowed down a bit, and the index grew only about 2.5% since then.

This slowdown of the momentum might be good for investors who want to buy financial stocks at more reasonable values. And if you are planning to add some financial stocks to your portfolio, there are three that should be on your radar.

A banking stock

Royal Bank of Canada (TSX:RY)(NYSE:RY) is one of the most promising long-term stocks trading on the **TSX**. As the largest bank in the country with a sizeable international presence, Royal Bank maintains an exceptional competitive edge in a highly consolidated sector.

It's also a Dividend Aristocrat offering a decent yield of 3.3% and a 10-year compound annual growth rate (CAGR) of 15%. The current CAGR is skewed because of the post-pandemic growth momentum, but the regular growth Royal Bank offers is also impressive enough. While it's not as high as most other growth stocks, it's sustainable for decades.

Even at its current hyped-up valuation, the bank will most likely offer great returns in a decade or so, but if you wait to buy until it has gone through a correction and the yield (and valuation) are considerably more attractive, it would be an even more fruitful buy.

An insurance company

Relatively few insurance stocks are worth buying for their capital growth prospects, but **Intact Financial** (TSX:IFC) is one of them. The company can trace its roots bank over two centuries to the Halifax Fire Insurance Association and is now focused on Property and Casualty (P&C) insurance. It's the largest P&C insurance company in the country and covers about 21% of the market.

It also has an international presence, especially in the U.S., U.K., and Ireland. In the last quarter, the company experienced strong growth in the U.S. and Canadian commercial sectors.

It's a financially stable business with a very strong presence and relatively little combination and offers consistent growth. The 10-year CAGR is 14% and the current yield is almost 2%. The stock is already fairly valued, but if it continues its downward motion, the valuation is likely to become more attractive.

A financial services company

Power Corporation Of Canada (TSX:POW) is one of the financial stocks that are maintaining their upward motion better than others. In the last 12 months, the stock has risen almost 58%, and even though the value is just right, I would recommend waiting before buying this stock.

It was not always a steady or reliable growth stock, and the post-pandemic growth is more of a fluke than a pattern. And even if you wish to buy the stock for its strong yield (which, at its current 4.2%, is juicy enough), waiting for a correction might help you lock in a juicier yield at an even more attractive valuation than what it's currently trading for.

Foolish takeaway

None of the three financial stocks are actually undervalued right now. But if you wait for the slowing of momentum to turn into a correction, you might get to take advantage of some mouthwatering undervalued deals. But it's important to remember that even during a correction, not every stock dips the same way, and if you wait too long to buy, the benefit of buying at a better valuation will not outweigh the time cost.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:IFC (Intact Financial Corporation)
3. TSX:POW (Power Corporation of Canada)
4. TSX:RY (Royal Bank of Canada)

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