Big 5 Banks Stocks: Here’s How You Can Buy Them All for Less Than $50

Description

Canada’s so-called Big Five banks dominate the **S&P/TSX Composite Index** by market capitalization, comprising some of its largest and most profitable constituents. These members include **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Canadian Imperial Bank of Commerce**, **Bank of Nova Scotia**, and **Bank of Montreal**.

Together, these banks form an oligopoly of sorts, with minimal competition, endless customer base, and secure profits. These banks have historically been managed very well, often postings good earnings growth and consistent dividend increases with high yields.

Analysis paralysis

Choosing which bank stock to buy and hold for your stock portfolio can be a bit confusing. Each bank will have differences and similarities, and it’s easy to get bogged down in the minutiae of details. Poring over income statements, balance sheets, cash flow statements, press releases, and stock charts can leave one feeling burnt out.

Buying all five banks might be a great way to diversify and place your bets on the sector as a whole, but that can be very capital inefficient. For an investor with a smaller account, it could be hard mustering the cash to buy more than one share of each bank. You would also have to periodically re-balance your holdings to ensure that no particular bank stock ends up dominating the portfolio after a bull run.

ETFs to the rescue

Fortunately, there is an easy way to own all five big bank stocks with one ticker — **BMO S&P/TSX Equal Weight Bank Index ETF** (TSX:ZEB). As an exchange-traded fund (ETF), ZEB holds shares of all the Big Five banks (plus **National Bank of Canada**) in a "basket" of sorts. When you purchase a share of the ETF, you are getting a slice of this basket, with proportionate exposure to all of its underlying stocks.

The cool thing about ZEB is that each of its constituent stocks is assigned an equal weight, as opposed to using their market cap weight. This ensures that no single stock can grow so large as to overly influence the ETF. This provides diversification and protection against a single stock doing poorly. With a total of six holdings, this ETF provides great exposure to the banking sector.

ZEB will cost you a management expense ratio of 0.28% to hold. This fee is deducted from the net asset value of the ETF on an annual basis. The fund also pays a monthly distribution, which amounts to an annual yield of 3.14% as of December 10, 2021. You can think of this distribution as the average of the dividends paid out by each of six underlying bank stocks.

The Foolish takeaway

ZEB is a capital-efficient way of gaining equal weight exposure to all the big bank stocks for a nominal fee. The monthly distribution is attractive versus quarterly dividends in the case of individual bank stocks. The ETF is liquid and can be traded like a normal stock during market hours on most brokerages. In my opinion, ZEB is best used to express a thematic tilt towards the banking sector or as part of a larger income-oriented investing strategy.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ZEB (BMO Equal Weight Banks Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. tdong

Category

1. Bank Stocks
2. Investing

Date
2025/06/29
Date Created
2021/12/26
Author
tdong