



## 2 Bank Stocks I'd Buy Instead of a Bank ETF

### Description

Beating the TSX might seem like a challenge as a stock market investor, but it is not impossible. 2021 was a year that saw the financials sector perform well and drive growth for the **S&P/TSX Composite Index**. It is likely the banking sector will continue outpacing the growth of the broader market. Taking a disciplined approach to investing in the top financial institutions could help you beat the broader markets.

[Investing in ETFs \(exchange-traded funds\)](#) can be an excellent way to diversify your investment capital [across a group of stocks](#) instead of purchasing individual shares in different companies. However, investing in individual securities could provide you with superior investment returns if you choose the right stocks to beat the returns of the stocks held within a fund.

Today, I will give you a quick look over the top banking ETF you could consider for exposure to the banking sector and two TSX bank stocks that might offer better returns than investing in the fund.

## Invest in the Big Six Canadian banks

**BMO Equal Weight Bank Index ETF** ([TSX:ZEB](#)) is a top ETF to consider if you want to bet on the top performers in Canada's financial industry. The fund seeks to provide you with investment returns by replicating the performance of the **Solactive Equal Weight Canada Banks Index**. The fund's constituent securities comprise the Big Six Canadian bank stocks in an equal weighting.

Investing in ZEB ETF means investing in the performance of all six of the top financial institutions in the country in the form of a single investment product. While that makes investing in the top six a more convenient affair, you could miss out on returns if one stock outperforms the rest by a substantial margin.

## National Bank of Canada

**National Bank of Canada** ([TSX:NA](#)) is one of Canada's Big Six banks but does not come close to

most of its peers among the top Canadian financial institutions. The \$33.62 billion market capitalization bank headquartered in Montreal might be the smallest among the top banks, but that could be the reason why it might outpace ZEB ETF's returns.

National Bank is an underdog but boasts possibly higher growth potential than its peers as it continues to expand its operations. Trading for \$99.43 per share at writing, National Bank stock boasts a juicy 3.50% dividend yield. As the bank becomes less regional, it could provide more stellar growth than its peers in the Big Six.

## Toronto-Dominion Bank

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is one of the bigger players among the top Canadian banks. The \$185.41 billion market capitalization bank headquartered in Toronto is another bank stock that might be a better buy if you seek to outperform ZEB ETF. TD Bank stock stands to benefit significantly during rising interest rates because of its retail exposure.

Higher rates would mean better profit margins for the bank, and that could be reflected with a performance that outpaces its peers among the Big Six banks. At writing, TD Bank stock is trading for \$101.76 per share, and it boasts a 3.50% dividend yield.

## Foolish takeaway

The road ahead is still riddled with uncertainty for stock market investors. It remains to be seen how [rising inflation](#) and higher interest rates will impact the stock market. 2021 saw the banking sector put up a stellar performance despite pandemic-related challenges. Looking forward, it will likely deliver market-beating returns.

You can invest in ZEB ETF to bet on all six big banks. But it may be possible to enjoy even greater returns on your investment by narrowing your focus to the two bank stocks likeliest to outperform their peers in the Big Six.

TD Bank stock and National Bank of Canada stock could be well-positioned to provide you with such returns.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

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

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**Date**

2025/08/26

**Date Created**

2022/01/25

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