Retirees: Do You Have Half of Your Money in Canadian Bank Stocks?

Description

Apparently, some retirees have half of their money, or at least 50% of their stock portfolios, in Canadian bank stocks. Some folks own all Big Five Canadian bank stocks. I'll explain why some retirees have so much of their net worth in Canadian bank stocks. But is it the right thing to do?

Royal Bank stock

Let's take **Royal Bank of Canada** (TSX:RY)(NYSE:RY) as an example. It just reported its fiscal first-quarter 2022 results yesterday. Here are some quarterly highlights:

- Net income of $4.1 billion, up 6% year over year (YOY)
- Diluted earnings per share of $2.84, up 7% YOY
- Return on equity of 17.3%

RBC's first-quarter results are typical results of the big Canadian bank stocks in a given year. The regulatory financial system allows the big banks to operate as oligopolies and enjoy the lion's share of the market share, leading to the banks reporting stable earnings growth and returns on equity in the teens in most years. This makes the big Canadian bank stocks, including Royal Bank stock, generate highly stable and safe dividends for its stockholders. In most years, dividends also increase roughly in line with the underlying earnings growth.

This is the main reason why retirees have big portions of their dividend portfolios in the big Canadian bank stocks. Retirees trust and rely on the dividend income that the dividend stocks provide.

Is 50% in Canadian bank stocks too much?

All stocks experience volatility. And naturally, certain environments can still lead to major corrections in the big Canadian bank stocks. During the pandemic market crash in 2020, Royal Bank stock fell approximately 30% from peak to trough. The stock correction was triggered by the heightened uncertainties and concerns surrounding the global economy from potential pandemic impacts. Other

Canadian bank stocks also experienced similar corrections.

During the global financial crisis of 2007-2009, RBC stock crashed and lost about 50% of its value. Again, its Canadian bank peers also saw their stocks falling in a similar fashion.

History always repeats itself. If you have half of your money or investment portfolio in Canadian bank stocks, it's highly possible that in the future, it'll experience major corrections again.

Since the bank stocks move in tandem, it doesn't achieve the purpose of diversification when retirees hold multiple bank stocks. Across a large retirement portfolio, holding one or two of the best Canadian bank stocks may make better sense.

Why do retirees own a lot of Canadian bank stocks?

Lastly, at what valuation retirees buy is also a factor in determining their portfolio component sizes. For example, if they bought bank stocks during the global financial crisis and the pandemic market crash, trusting that the stocks wouldn't go away, they would naturally be sitting on large positions. Since retirees want income, and selling shares results in lower income generation, it could make sense to hold, even when their bank holdings grow into a large position after rallying from buying during market crashes.

The idea is to aim to buy when quality dividend stocks are cheap during stock market crashes. Canadian bank stocks like RBC stock are quality, but in future stock market crashes, also consider other quality dividend stocks, like **Fortis**, **TELUS**, and **TC Energy** to improve the balance and diversification of your investment portfolio.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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. kayng
2. kduncombe

Category

1. Bank Stocks
2. Investing

Date
2025/08/21
Date Created
2022/02/25
Author
kayng