New Investors: 1 Stock Is All You'll Need to Bank on the Big 6

Description

New investors have quite a few options after the recent bout of market volatility. With bank stocks running out of steam, I'd look to treat the recent weakness in such names as a buying opportunity ahead of what could be another big run for Canada's top financials. Indeed, the Big Six banks are pretty much royalty as far as Canadian stocks are concerned.

They've outpaced the TSX Index over the last decade and are slated to continue that, even if we are dealt a recession at some point over the next two or three years. With the Bank of Canada (BoC) ready to raise rates, the banks will benefit modestly from margin expansion potential on their deposits. Though much of the expectation of higher rates is baked in, I think that the recent slide in bank stocks seems to exaggerate the potential economic growth cooling effect that may be a side effect of the BoC's coming rate hikes.

Higher rates alongside a more robust economy?

Though investors should be ready for anything, including a recession or stagflation, I don't think investors should be overly cautious to steer clear of any recession-induced damage. Remember, recessions come in all shapes and sizes. Some are severe, others can lead to a prolonged depression, and others tend to be mild and short-lived.

With the Fed so focused on crushing inflation without dragging the economy back to the depths of 2020, I think that acting based on fear is not a great idea right here. Indeed, earnings are a notable wild card this spring. With early signs pointing to a robust consumer, you'd better believe that a "soft landing" is not just a sanguine hope that the U.S. Federal Reserve has in mind. If the Fed plays it safely, it can engineer such a soft landing, and chairman Jay Powell could go down in the history books as one of the best Fed members for his actions conducted over what have been a very turbulent past two years!

Now, back to the bank stocks. Higher rates on the horizon are a given. But robust economic growth is not. If the growth can power higher in the face of rising rates, it's the big banks that could enjoy another leg to its rally. Currently, valuations are slightly skewed towards the lower end. And although you can pick and choose your favourite banks (the best banks for your buck), many Canadians may be better off buying the broader basket.

BMO Equal Weight Canadian Banks: A perfect one-stop-shop for Big Six exposure

BMO Equal Weight Canadian Banks ETF (TSX:ZEB) is a top way to gain equal exposure to all Big Six Canadian banks. Though the MER may be slightly on the higher end, just buying ZEB is likely to save many smaller investors a lot of trading commissions. Even for those enjoying low to no commissions, ZEB is such a convenient way to bet on the broader basket.

At writing, shares of ZEB sport a handsome 3.26% dividend yield. With a 0.48% MER, ZEB looks to be among the best (and easiest) ways for Canadians to get their banking exposure if they don't have time to value each one of the Big Six.

Personally, I'm a big fan of the equal-weighting aspect of the ETF. You'll gain more exposure to the smaller, growthier banks than a cap-weighted counterpart. Though higher growth comes at the cost of higher volatility, I think the ZEB irons out such choppy moves rather well.

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. joefrenette
2. kduncombe

Category

1. Bank Stocks

2. Investing

Date
2025/08/15
Date Created
2022/04/23
Author
joefrenette