Canadian Bank Stocks Near 52-Week Lows: Buy Them All With This ETF

Description

Canada's so-called Big Six banks include **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Canadian Imperial Bank of Commerce**, **Bank of Nova Scotia**, **Bank of Montreal**, and **National Bank**.

Together, these banks form an oligopoly, with minimal competition and a strong customer base. These banks have historically been managed very well, often posting good earnings growth and consistent dividend increases with high yields.

Why bank stocks?

Right now, multiple banks are trading at prices near their 52-week lows due to the rough market conditions. Despite their depressed prices, these banks still possess strong cash flows and excellent balance sheets, making their fundamentals just as solid as ever.

Buying all six banks might be a great way to diversify, but that can be very capital inefficient. Investors with smaller accounts might lack the cash to buy shares of each bank, which can be upwards of $100 each. This can lead to overconcentration and underdiversification.

Investors 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. This is costly in terms of time and trading fees, and can get confusing if you have a large number of stocks in your portfolio.

Try an ETF instead

A great way to own all six bank stocks is via **BMO S&P/TSX Equal Weight Bank Index ETF** (TSX:ZEB). As an exchange-traded fund (ETF), ZEB holds shares of all six banks in a "basket" of sorts. When you purchase a share of the ETF, you are getting a slice of this basket, with exposure to its underlying stocks.

ZEB allocates its holdings via an equal weight methodology as opposed to using their market cap weight. This ensures that no single stock can grow so large as to overly influence the ETF and diversification and protection against a single stock doing poorly.

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. For a $10,000 portfolio, ZEB will cost around $28 in fees annually.

The fund also pays a monthly distribution, which amounts to an annual yield of 4.21% right now. 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 great way of buying all six big bank stocks for under $40 per share. If you're looking for more consistent income, ZEB's more frequent monthly distributions beats the quarterly dividends paid by individual bank stocks.

The ETF is very 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
2025/09/10
Date Created
2022/07/04
Author
tdong