Bank Stocks: Why They Are Criminally Overlooked

Description

Bank stocks have been among the best-performing assets in Canada over the last decade. Since 2006, the TSX Financials index — that is, the index of Canadian bank stocks — has risen 84%, while the TSX Index has risen only 67%. Not only that, but banks generally pay higher-than-average dividends, so the banking sector's outperformance is even higher than it looks!

Still, many investors shy away from the banking sector. If you look at investing communities on social media, you won't see that many investors talking about banks. Instead, you'll hear a lot of talk about cryptocurrency, meme stocks, ultra-speculative tech stocks, and the like. Apparently, bank stocks are just too boring for the average investor.

That's precisely what makes bank stocks so appealing right now. Because they're overlooked, they are unlikely to be in any kind of bubble that will cause investors to lose money. Quite possibly, they will even make investors some money. In this article, I will explore some reasons why people dislike bank stocks and explain why they are mistaken.

Many people are averse to "boring" assets

One reason why people don't like bank stocks is because they're averse to "boring" assets. Warren Buffett has said many times that boring assets are often the best, because they aren't overpriced. Yet when it comes to stocks, people generally go after exciting assets. Sometimes, "exciting" tech stocks deliver the kinds of returns people expect — U.S. big tech comes to mind. But, very frequently, they go bust. Bank stocks are not exciting or thrilling, which means that they are less likely to reach bubble valuations compared to tech stocks.

Fear of the 2008 Financial Crisis 2.0

Another reason why many people dislike bank stocks is because they remember the 2008 Financial Crisis. In 2008, U.S. banks got caught issuing mortgages to borrowers who weren't creditworthy, and it caused them to lose a lot of money. In the end, most large U.S. banks got bailouts, while Lehman

Brothers went out of business.

It was a scary time for U.S. banks. But Canadian banks made out reasonably well in the financial crisis. Because Canada's mortgage lending rules were much stricter than those of the U.S., our banks didn't take any serious damage. The only one that took really massive losses was **CIBC**, which had to write down (reduce the value of) its assets by $3 billion. However, it was never at risk of failing.

The 2008 Financial Crisis was even a boon to **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). Sure, its stock fell 53.3% during the crisis, but the losses reversed quickly. By 2010, those who bought at the 2007 peak were back to breaking even — and they'd collected dividends in the meantime.

More importantly, TD went on a bank-buying spree in 2010, at which time the U.S. banks still hadn't recovered from their financial crisis damage. TD made many of these deals on the cheap, which helped the bank cement its reputation as the "most Canadian of U.S. banks." Today, TD Bank earns about 36% of its profit in the United States, and it's currently expanding that presence even further by buying out **Cowen** and **First Horizon.**

The lesson?

Canada's banking sector may be overlooked, but that doesn't mean it's bad. To the contrary, it's a confirmed outperformer.

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