



Canadian Bank Stocks: Why I'm Bullish on These Two Banks in 2021

Description

The growth of tech stocks in 2020 has left value investors questioning the opportunity cost of owning a Canadian bank stock. And the way 2021 has started, tech doesn't look like it's slowing down just yet.

The drop in interest rates in 2020 took a major hit on the major Canadian bank's profit levels. The Canadian government's attempt to stimulate a damaged economy came at the short-term expense of hurting the major banks.

To make matters even worse for the Canadian banks, the low interest rate environment is looking more and more like it will be a slow grind back to pre-COVID-19 levels.

Why invest in a Canadian bank?

Canadians invested in bank stocks, understandably, may have had some regret last year from not having a larger presence in the tech sector.

I believe we'll see the [record-setting growth](#) continue in tech, at least through 2021, and the banks will continue to struggle to keep up with the broader market's return.

I also believe that there are more reasons than just growth to own a Canadian bank. There are three reasons why I have a couple of Canadian banks at the top of my watch list right now.

First off, the Canadian banks have a well-deserved reputation of being dependable long-term stocks to hold in an investment portfolio. While they might not deliver market-beating growth on a yearly basis, the reliability allows investors to take chances on high-growth stocks that will drive market-beating returns for the entire portfolio.

The second reason why you might want to own a Canadian bank is for the dividend. If you're looking to earn passive income in your portfolio, you'll want to own a Canadian bank. The Big Five own some of the highest yields today on the **TSX** today. They also own some of the most [impressive dividend](#) payout streaks, some nearing an incredible 200 years.

The third reason to own a Canadian bank is for the geographic exposure they can provide.

There's more than one way to gain exposure to non-Canadian economies in an investment portfolio. A total stock market index fund from another non-Canadian economy would do the trick. But if you're like me, and have the majority of your portfolio in individual stocks, you may not be thrilled with owning total stock market indexes for the geographic exposure alone.

Bank stock #1: Toronto-Dominion Bank

At the top of my watch list is **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

The \$135 billion certainly checks off my first two reasons for owning a Canadian bank.

TD Bank has been more than just a dependable stock over the past decade. It has more than doubled the returns of the **S&P/TSX Composite Index** over the past 10 years.

At today's stock price, a 4.2% dividend yield is also nothing to complain about. But it's the geographic exposure that has me interested in adding this Canadian bank to my portfolio.

Roughly one-quarter of TD Bank's net income is driven by its U.S. operations. Even with the majority of locations residing on the east coast, the bank already ranks among the top 10 in the country based on total asset size.

Bank stock #2: Bank of Nova Scotia

I have **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) at the top of my watch list for similar reasons as TD Bank.

I'd still consider the \$85 billion bank as a very dependable stock, but it's trailed the Canadian market over the past decade. I'm not overly concerned with that, as market-beating growth would not be my primary reason for owning any of the Canadian banks.

At today's stock price, Bank of Nova Scotia's yield is equal to a whopping 5.1%. The Dividend Aristocrat has also been paying a dividend to its shareholders for more than 180 years.

Like TD Bank, the selling point for me on Bank of Nova Scotia is its geographic presence. It's not uncommon for a Canadian bank to have an international presence. What stands out with Bank of Nova Scotia is the aggressive expansion strategy it has executed in Latin America.

Today, the bank is considered a leader in the Pacific Alliance, which is the trade bloc region that includes Columbia, Chile, Mexico, and Peru.

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Date

2025/09/26

Date Created

2021/01/22

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