



Does Size Matter When It Comes to Investing?

Description

When many investors think of Canadian banks, the lion's share of attention tends to go to the Big Five players. Smaller, regional banks such as **Laurentian Bank** ([TSX:LB](#)) typically don't get the same level of interest for various reasons.

In this article, I'm going to highlight the importance of a few key catalysts to watch.

Balance sheet

For large lenders that don't have the "systematically important" tag placed on them by central banks, ensuring ample liquidity during prolonged recessions is of utmost importance. Most sectors and companies, generally speaking, are now being assessed by analysts and investors on the basis of balance sheet strength.

The reality is that no one knows just how long this pandemic will last. Further, we don't know the ultimate impact of these global government shutdowns on business will be. As such, ensuring the companies one invests in have the ability to survive this near-term shock should be priority #1.

Laurentian Bank likely falls outside of the too big to fail group of Canadian lenders, which means that balance sheet strength is more important for Laurentian than its large peers. Not having a "central bank put" means investors need to keep a close eye on Laurentian's capital ratios. In addition, investors should watch other measures of financial stability to a greater degree than ever before.

Dividend not sacrosanct

I wrote a recent piece on the reality that [no company is immune from the potential of a dividend cut](#) (forced or otherwise). Most large Canadian banks have never cut their dividend. But that doesn't mean it will never happen.

At writing, Laurentian Bank's 9% dividend indicates a real belief that a dividend cut could be on the

horizon. At least, the market is pricing in a greater probability for such a scenario relative to the company's larger peers.

Risk levels

When it comes to perceived risk in the financials sector, size does matter. Larger banks tend to have larger customers with less counter-party risk associated with the financial products sold. Smaller lenders like Laurentian Bank tend to deal with smaller, regional companies with higher inherent risk profiles than larger national customers.

The way to buy Laurentian stock

For those adamant on buying Laurentian stock, I'd instead recommend buying an Exchange-Traded Fund (ETF) that tracks the entire Canadian financials sector. Such an ETF would provide exposure to Laurentian in the context of the broader sector.

While this would limit the risk profile of an investment in Laurentian alone, it would provide higher upside to investing in the **Royal Bank of Canada** or **Toronto-Dominion Bank**.

The high single-digit dividend of Laurentian may seem too juicy to pass up. However, there is a reason investors have bid down Laurentian's stock price to this level. This current economic environment is not one which will favour the risk-seeking investor type.

I do think it's important to reiterate the prudence of a conservative basket-style approach to gaining sector-specific exposure to areas like Canadian financials.

Keeping a long-term buy-and-hold perspective by holding a group of the highest quality Canadian banks is most certainly the preferable play here.

Stay Foolish, my friends.

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1. Bank Stocks
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1. bank
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4. financials
5. market crash
6. pandemic

TICKERS GLOBAL

1. TSX:LB (Laurentian Bank of Canada)

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Author

chrismacdonald

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