Why Invest in Banks?

By www.ProfitableInvestingTips.com

Why invest in banks? Banks are generally a good avenue for value investing, dividend stocks, and intrinsic stock value. When the economy goes into a recession, bank stocks fall in price. However, when you look at their intrinsic stock value, these investments are generally bargains. This is because, over the years, banks are money-makers. They are usually dividend stocks as well. And, if you are interested in investing in Canada, Bank of Canada, Bank of Nova Scotia, Canadian Imperial Bank, and Toronto-Dominion Bank have all been paying dividends without fail for more than a century.

Value Investing in the Banking Sector

Investopedia offers a useful discussion about value investing in the banking sector. Value investments are secure with steady growth potential. Because banks pay dividends, you will have steady income. Because banks tend to be undervalued when the economy weakens they sell at bargain prices for the long term. A good example is Wells Fargo which sold for $1.27 a share forty years ago and sells for $32.78 today during the Covid-19 recession. This stock sells for $50 to $60 a share during normal times. And, it provides a 1.22% dividend yield.

What Is Value Investing and Why Apply It to Bank Stocks?

Investors who choose stocks with strong long term earning potential but low share prices are engaging in value investing. They look past the fear and greed-driven market sentiment of the day to the money that a company will generate over the long haul. These investors, like Warren Buffett, tend to buy when others are selling and bail out of the market when others are pushing it to extreme (and temporary) highs.

Because bank earnings are sensitive to interest rates, their earnings and stock prices fall during a recession. However, banks have reserves and tend to survive difficult times. Then, when interest rates go up, they become money-making machines again. The value investor can see this and will invest in bank stocks when rates are low only to see their investments double and triple in value when the economy and interest rates come back.

Investing in the Banking Sector

Retail banks, investment service firms, and insurance companies have a huge impact on the economy. They provide the credit that helps drive modern commerce. And, they make money on the interest they charge on loans and for various services. A well-managed, successful bank pays dividends to reward its investors and will commonly continue dividend payments even when stock prices fall. It is important to recognize that a failing bank may have a very high dividend rate so that can be a warning sign as well. Nevertheless, banks can be good long term investments and will be especially good when you pick them up when prices are depressed

during an economic recession.

Can You Time Your Investments in the Banking Sector?

You can invest in solid banks when their stock prices are depressed and sell when prices go up. But, if you have money to invest on a regular basis, a better approach may be dollar cost averaging. With this approach you will be buying fewer shares when prices are high and more shares when prices are depressed. If you adhere to this approach you will also avoid having fear and greed drive your investment decisions. To the extent that you want to time investments in the banking sector, use intrinsic stock value as a guide and buy when intrinsic value is substantially greater than the current stock price.

For more insights and useful information about investments and investing, visit

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