DSR REPORT

ALL ABOUT CANADIAN BANKS

PROVIDED TO YOU BY

DIVIDEND STOCKS ROCK

INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

LEGAL TERMS OF USE

THE CONTENTS OF THIS MANUAL REFLECT THE AUTHOR'S VIEWS ACQUIRED THROUGH HIS EXPERIENCE ON THE TOPIC UNDER DISCUSSION. THE AUTHOR AND/OR PUBLISHER DISCLAIM ANY PERSONAL LOSS OR LIABILITY CAUSED BY THE UTILIZATION OF ANY INFORMATION PRESENTED HEREIN. THE AUTHOR IS NOT ENGAGED IN RENDERING ANY LEGAL OR PROFESSIONAL ADVICE. THE SERVICES OF A PROFESSIONAL ARE RECOMMENDED IF LEGAL ADVICE OR ASSISTANCE IS NEEDED.

WHILE THE SOURCES MENTIONED HEREIN ARE ASSUMED TO BE RELIABLE AT THE TIME OF WRITING, THE AUTHOR, PUBLISHER AND THEIR AFFILIATES ARE NOT RESPONSIBLE FOR THEIR ACTIVITIES. FROM TIME TO TIME, SOURCES MAY TERMINATE OR MOVE AND PRICES MAY CHANGE WITHOUT NOTICE. SOURCES CAN ONLY BE CONFIRMED RELIABLE AT THE TIME OF ORIGINAL PUBLICATION OF THIS MANUAL.

THIS MANUAL IS A GUIDE ONLY AND, AS SUCH, SHOULD BE CONSIDERED SOLELY FOR BASIC INFORMATION. EARNINGS OR PROFITS DERIVED FROM PARTICIPATING IN THE FOLLOWING PROGRAM ARE ENTIRELY GENERATED BY THE AMBITION, MOTIVATION, DESIRE AND ABILITIES OF THE INDIVIDUAL READER.

NO PART OF THIS MANUAL MAY BE ALTERED, COPIED, OR DISTRIBUTED WITHOUT PRIOR WRITTEN PERMISSION OF THE AUTHOR OR PUBLISHER. ALL PRODUCT NAMES, LOGOS, AND TRADEMARKS ARE PROPERTY OF THEIR RESPECTIVE OWNERS WHO HAVE NOT NECESSARILY ENDORSED, SPONSORED, OR APPROVED THIS PUBLICATION. TEXT AND IMAGES AVAILABLE OVER THE INTERNET AND USED IN THIS MANUAL MAY BE SUBJECT TO INTELLECTUAL RIGHTS AND MAY NOT BE COPIED FROM THIS MANUAL.

THIS BOOK IS A COMPILATION OF STOCKS PICKED BASED ON IDENTIFIED & EXPLAINED METRICS. THIS SHOULD NOT, AT ANY LEVEL, REPRESENT RECOMMENDATIONS OR FINANCIAL ADVICE. READERS ARE REPONSIBLE OF THEIR OWN INVESTING PROCESS AND INVESTMENT DECISIONS. THE AUTHOR AND COMPANY EDITING THIS BOOK ARE NOT RESPONSIBLE FOR ANY LOSSES/PROFITS AN INVESTOR MAY INCUR DURING HIS INVESTING JOURNEY.

A LITTLE ABOUT ME

My name is Mike Heroux and I'm the author of The Dividend Guy Blog, The Dividend Monk, and Moose Markets (yes, I thrive on staying busy!) along with being the co-owner and portfolio manager at Dividend Stocks Rock (DSR). I have an unusual sense of humor for a "nerdy finance guy". Before you decide if you trust me or not, let's get to the "boring & serious" stuff first.

I earned my bachelor's degree with a double major in finance and marketing, I completed a CFP (Certified Financial Planner) certification along with an MBA in financial services. I worked in the financial industry for over a decade including 5 years as a financial planner and another 5 as a private banker managing accounts for high net worth (read $1M+) clients.

Besides being a passionate investor, I'm also happily married with three amazing children, and I live in the beautiful province of Quebec, Canada. I started my online venture to capitalize on my education and professional background by educating people about investing. A most fortunate by product of this professional endeavor is that I can work from home which allows me to be able to spend more time with my family.

In 2016, I decided to leave everything behind and go for a 1-year RV trip across North America and Central America (we made it all the way down to Costa Rica). Upon my return in 2017, I quit my job as a private banker and invested all my energy in my online business. I would rather pursue my dream of helping people invest through my sites. Since then, I have been a full-time online entrepreneur.

You can read more about my investing journey here.

IN THIS BOOKLET…

We look at banks.

- How the Canadian Big Six fared in 2023
- A look at innovative EQ Bank
- Credit anyone? A peek at GoEasy

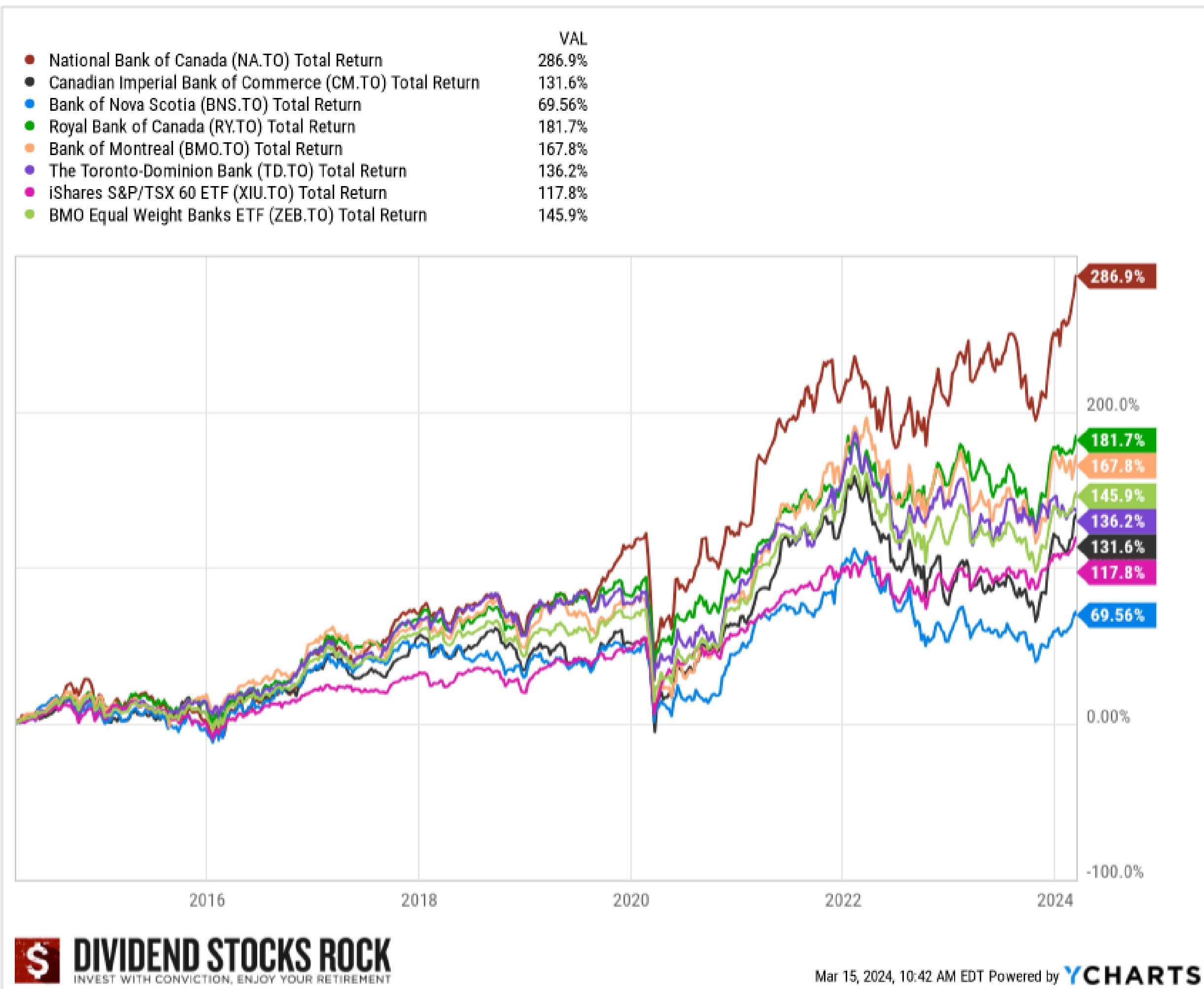
CANADIAN BANKS… AND MORE!

This week we rank the big six Canadian banks based on their fundamentals, growth opportunities, and their 2023 results. Remember that contrary to popular belief, they are not all the same. It matters which one(s) you choose to add to your portfolio.

We also look at two fast-growing innovators in the Canadian financial services sector that have created a lot of interest and enthusiasm from investors: EQ Bank and GoEasy.

CANADA'S BIG SIX BANKS vs. MARKET

First, let's look at the evolution of total returns of the big six Canadian banks for the last ten years.



We see that at the end of 2023 five of six big Canadian banks had outperformed the market, and four of six also outperformed the ZEB.TO equal weight banks ETF over 10 years.

BIG SIX CANADIAN BANKS RANKED

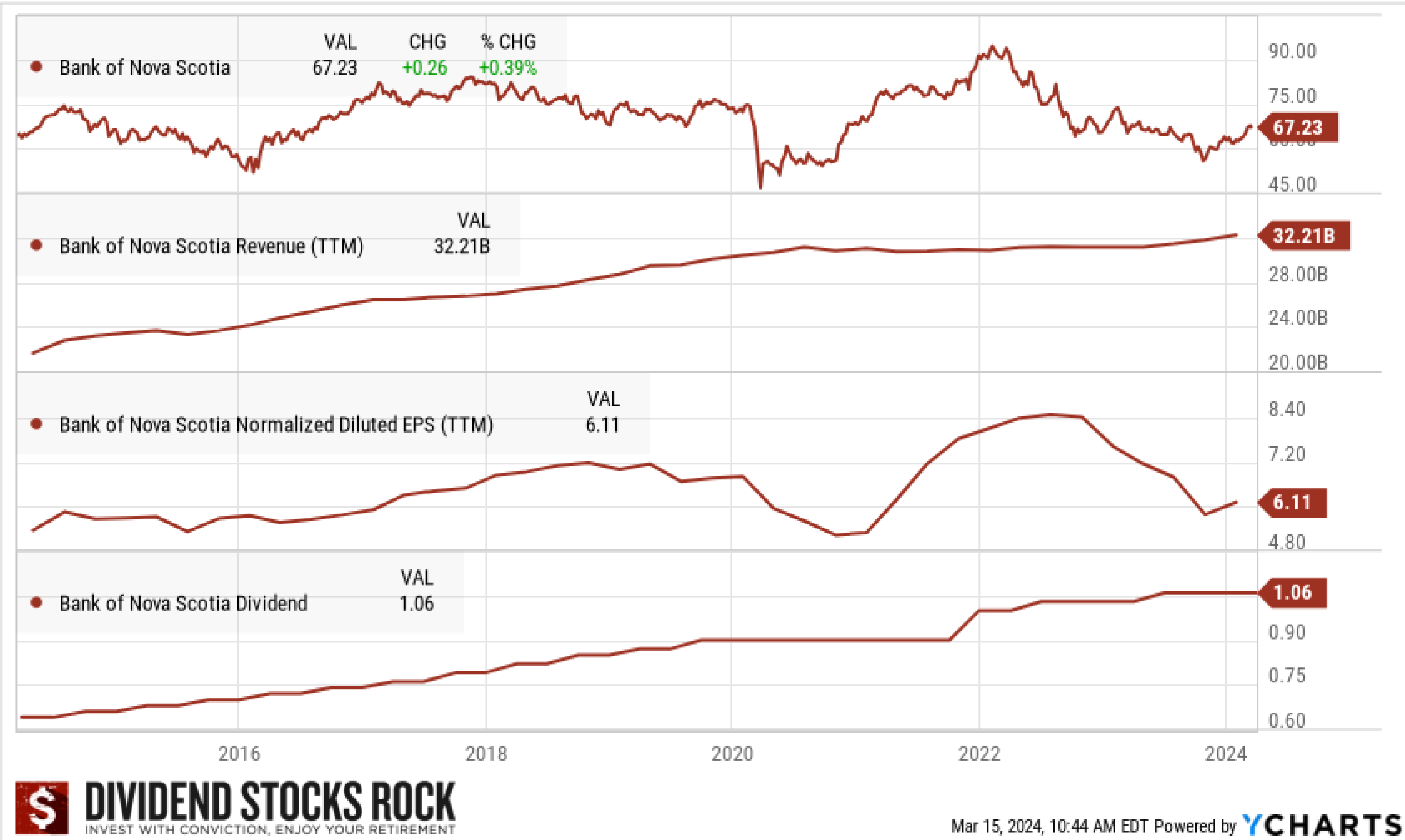
Since the 2008 financial crisis, the six banks (Royal Bank, TD Bank, ScotiaBank, Bank of Montreal, Canadian Imperial Bank of Commerce, and National Bank), took different paths. They all benefited from the banking oligopoly in Canada to fund new growth vectors. Fifteen years later, if you picked the wrong bank, you will have possibly left a lot of money on the table.

Here is our Canadian Banks' Rankings for 2024 from position 6 to 1.

#6 ScotiaBank (BNS.TO)

The most international of the Canadian banks, BNS has significantly expanded outside of Canada with 40% of its assets outside the Canadian border. It hasn't always been an advantage as BNS ran into its share of problems with South American economic struggles. The bank reduced its international footprint to 30 countries down from 54 in 2013. Expected gross domestic product (GDP) growth for these countries is attractive, and is higher than Canada and the U.S., but comes with uncertainty and volatility. BNS is a dominant player in Chile after acquiring BBVA Chile in 2018. The bank has a strong track record for acquiring and integrating businesses.

Unfortunately, this wasn't enough to keep pace in 2023. BNS ended the year with poor results, mostly due to higher provisions for credit losses (PCLs) across all segments of its business. The pace at which PCLs have increased is concerning. We were also disappointed by the small dividend increase of just 3% in 2022 and another small increase in 2023.



Pros:

- **Best diversified and most international**: For over a decade BNS focused on growing outside of Canada, especially in Central and South America where the GDP growth rate is better than in the U.S. and Canada. Moving forward it should grow at 3%-4% while it'll be hard to reach over 1%-2% in Canada and the U.S.

Cons:

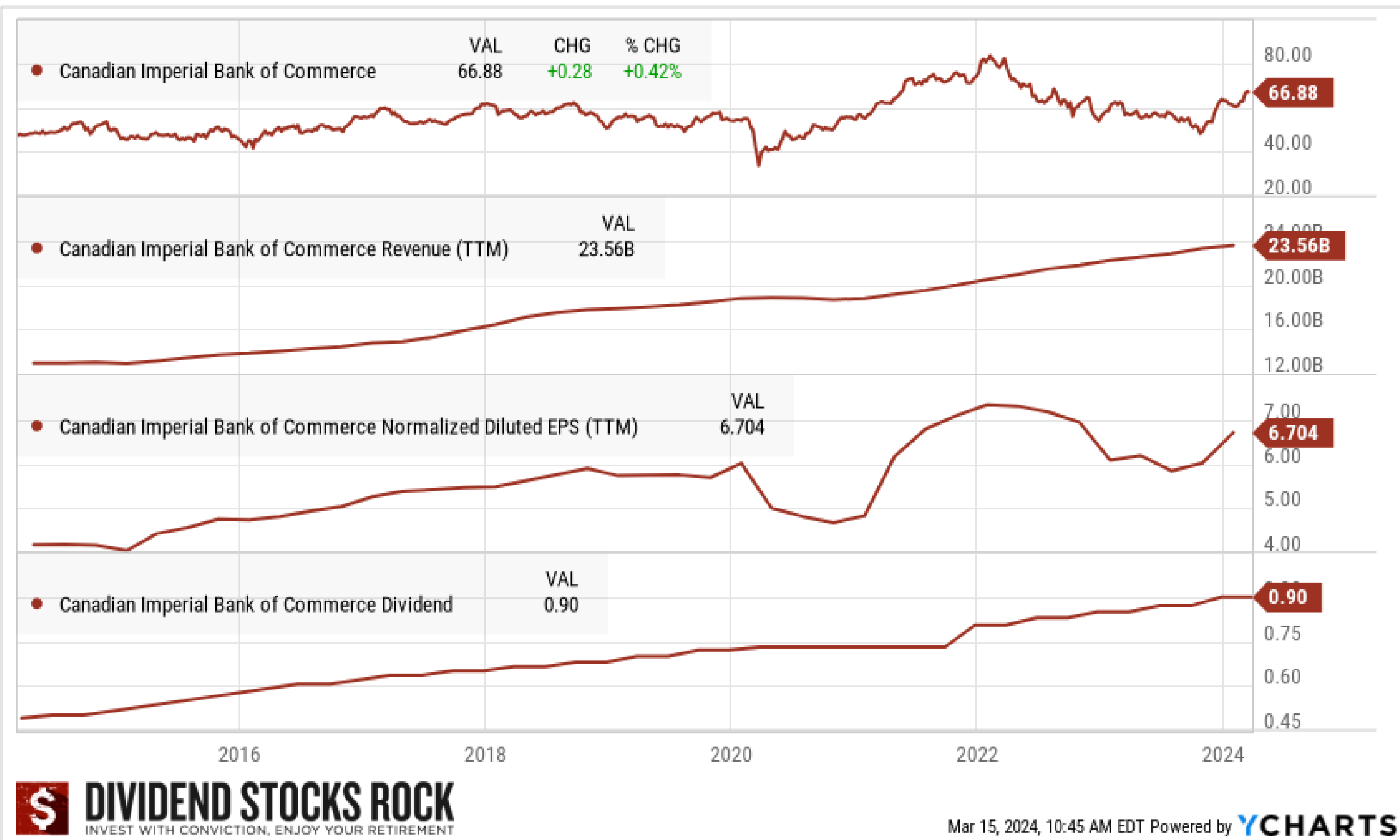
- **International exposure brings uncertainties**: Before the pandemic, BNS had a great story, but never capitalized on it and never outperformed other banks. Why? It's complicated to do business in Central and South America! It took years and several failures for Canadian banks to enter the U.S. They made bad acquisitions and failed several times. Looking at South and Central America, you realize it's a lot more complicated than making loans in the U.S.

- **Worst performing stock from the top 6 over the past 10 years.** With all the difficulties mentioned, I'm not expecting BNS to reverse the current trend in the upcoming months or years.

#5 Canadian Imperial Bank – CIBC (CM.TO)

While CIBC lags behind the other banks on the stock market along with ScotiaBank, it gives investors the chance to get a generous yield without significant risk. We like that they want to grow their wealth management division, but the integration of Private Bank is a crucial step. For investors looking for more income, CM is probably one of the best picks on the Canadian stock market; just don't expect it to outperform the banking industry over the long run. CIBC is trading at a low PE ratio versus some of its peers since it has lower growth expectations.

On the bright side, the dividend is not at risk, and an investor will enjoy consistent increases. CIBC will likely be a good fit for a retirement portfolio since it offers the stability of a top 5 Canadian bank with a decent yield and the security of future dividend growth.



Pros:

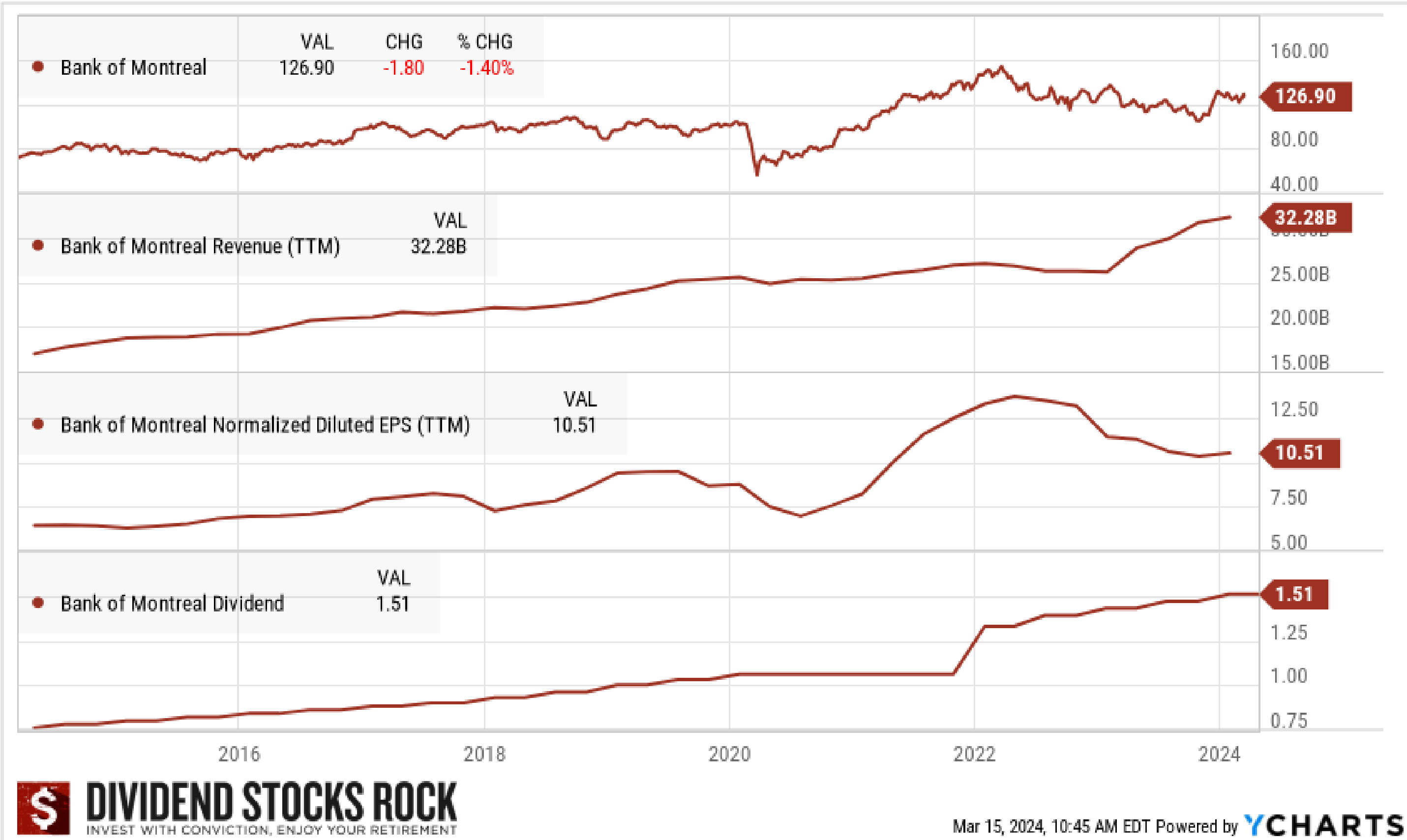
- **High yield with a relatively low payout ratio**: When you do the math, a low stock price brings a higher yield. A low PE ratio also brings a high yield and so the stock price is low.
- **Mortgage loans**: A classic and easy activity for banks, but when your biggest growth vector is mortgages right now, we don't think it will result in outperforming the other banks.
- **Private banking and wealth management**: Smart move, but a little late. CIBC is a small player in this market compared to the others.

Cons:

- **Lack of growth vectors**: Lack of clarity about their strategy, or a lack of a strategy, they try to do a bit of everything. There isn't a business segment that's clearly leading the growth.

#4 Bank of Montreal – BMO (BMO.TO)

BMO chose the stock market path to ensure its growth. It was the first Canadian bank with its own ETF on the market. Competition is fierce, but being among the first Canadian issuers surely helped to build momentum in a growing market. The bank is still active in the M&A world with its acquisition of Bank of the West. BMO also made innovative moves such as the introduction of a robo-advisor. Over the years, BMO concentrated on developing expertise in capital markets, wealth management, and the U.S. market. Since growth will occur in these markets in the coming years, BMO is well-positioned to surf this tailwind. Take note that BMO's results are often more volatile compared to those of its peers due to its capital market business segment. The bank has been less generous about dividend growth between 2010 and 2020. However, it has come back strong with its most generous dividend increases in the years since 2021.



Pros:

- **Focus on capital markets and wealth management**: They were the first in the country to have their own ETF suites. They saw where the market was going, and they took advantage of it. They were also among the first of the Canadian banks to make a move towards private banking with the acquisition of Harris Bank in Chicago. They're well-established in wealth management and in capital markets, which we like.

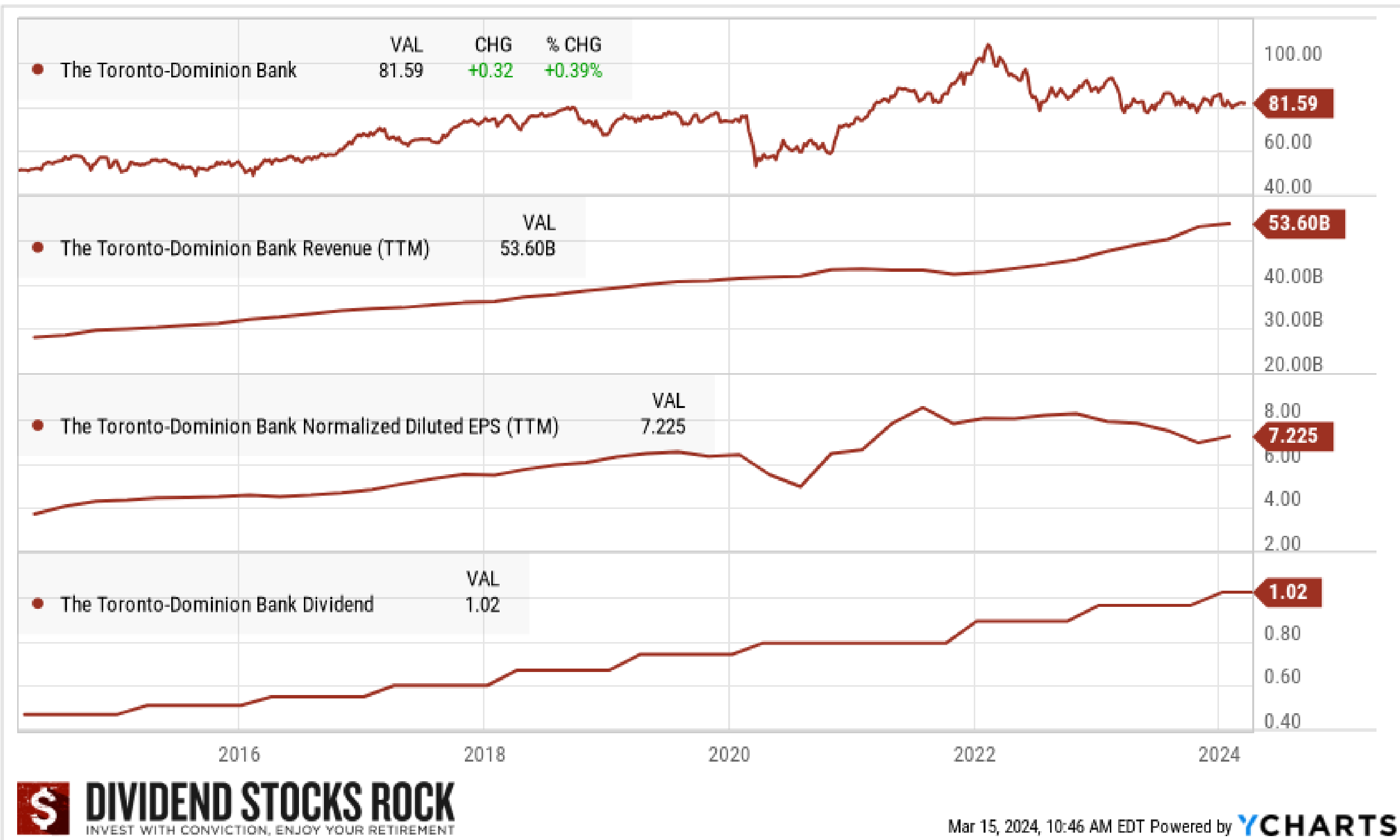
- **Well-established in the U.S.**

Cons:

- **Revenue and earnings are more volatile**: Because of their focus, their revenue and earnings are more volatile, and at higher risk. Investors should expect two dividend increases per year going forward.

#3 TD Bank (TD.TO)

Over the years, the bank has been increasing its retail focus, driven by lower-risk businesses with stable, consistent earnings. The bank enjoys number one or two market share for most key products in the Canadian retail segment. TD keeps things clean and simple as the bulk of its income comes from personal and commercial banking. It has substantial exposure in major cities like Toronto, Vancouver, Edmonton, and Calgary, and a strong presence in the US. With about a third of its business coming from the U.S., TD is the most "American" bank you'll find in Canada. If you're looking for a straightforward bank, TD should be your pick as increasing retail focus, large market share in Canadian banking, and U.S. expansion are key growth enablers for TD Bank. The 13% stake in Charles Schwab (SCHW) is another interesting growth vector.



Pros:

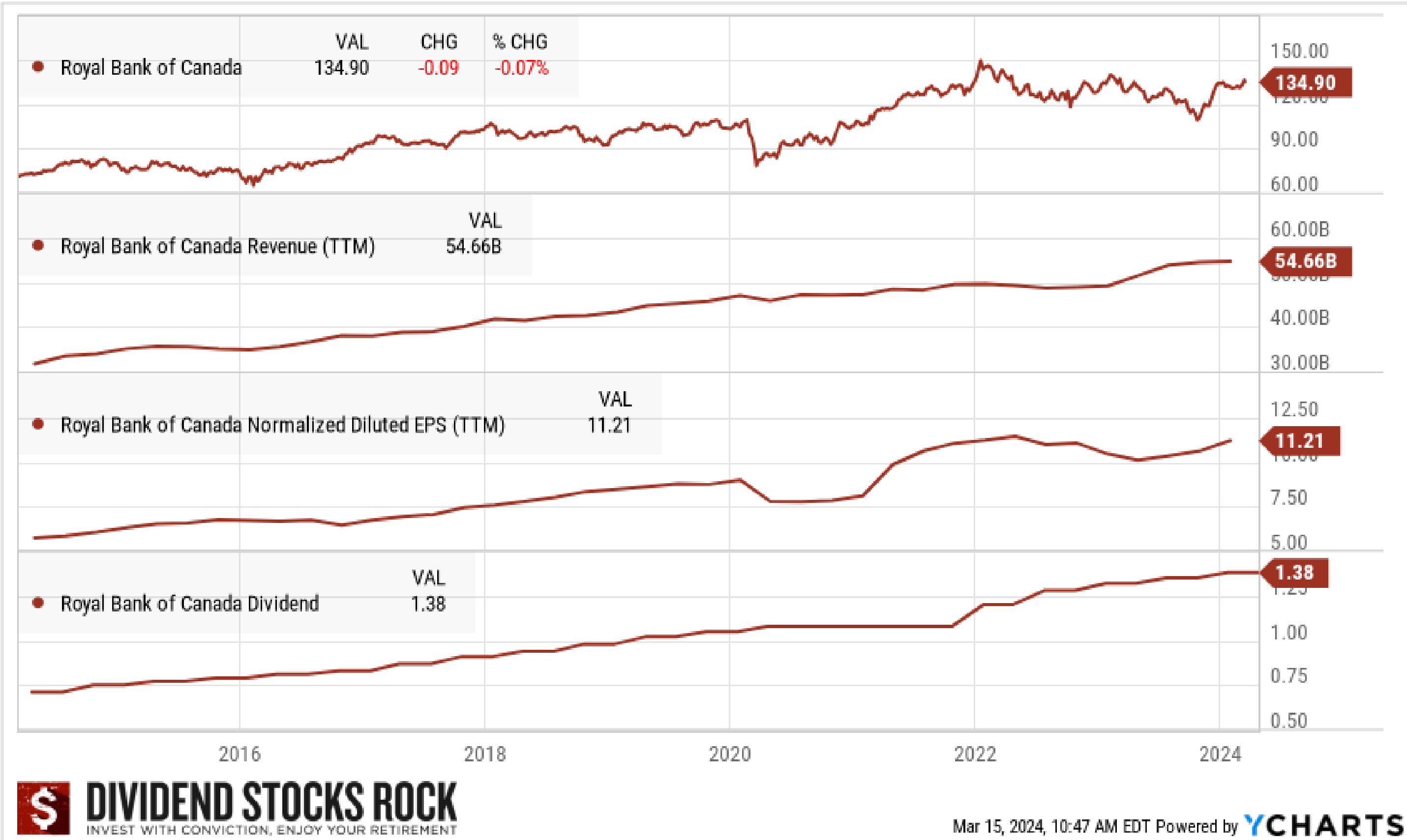
- **Revenues (a third of their total revenues) coming from the US**: They caught up to that game from their southern neighbors. They know how they want to deal, and they have great exposure in the U.S.
- **Largest amount of assets in Canada**.
- **Doing things simple but doing them the right way**: They have been doing very well for the past 10 years.
- **Strong wealth management**: Their segment from Ameritrade did very well, and now they're selling to Charles Schwab.

Cons:

- **High exposure to mortgages**: Showing resilience, the hot housing markets such as Vancouver and Toronto have only slightly cooled down over the last year. If we get into a housing bubble though, it's going to be harder for TD.

#2 Royal Bank – RBC (RY.TO)

Royal Bank counts on three main growth vectors: its insurance, wealth management, and capital markets divisions, which combine to provide for over 50% of its revenue. They're also the segments that helped Royal Bank stay the course during the pandemic. The company has made significant efforts to diversify its activities outside of Canada and has a highly diversified revenue stream to offset interest rate headwinds. Canadian banks are protected by federal regulations, but this also limits their growth. Having operations outside of the country helps RY to reduce risk and improve its growth potential. The bank posted impressive results for the latest quarters driven by strong volume growth and market share gains which offset the impact of higher provisions for credit losses. As interest rates rose in 2023, RY was in a strong position to take advantage.



Pros:

- **Battling TD to be the largest bank in assets**: They're well established across all of Canada.
- **Roughly 50% of revenue comes from classic banking activities**: Which means only 50% is subject to the interest rate squeeze.
- **The other half comes from wealth management, capital markets, and insurance**: They have been able to cross-sell between those segments. They are maximizing their presence in wealth management, and they completed a huge deal with BlackRock for ETFs.
- **Strong dividend growth policy in place**: You can count on two low-single-digit dividend increases each year. Royal Bank increased its dividend by 2.3% in Q2 of 2023 and by another 2.2% in Q4 of 2023. The dividend is safe.

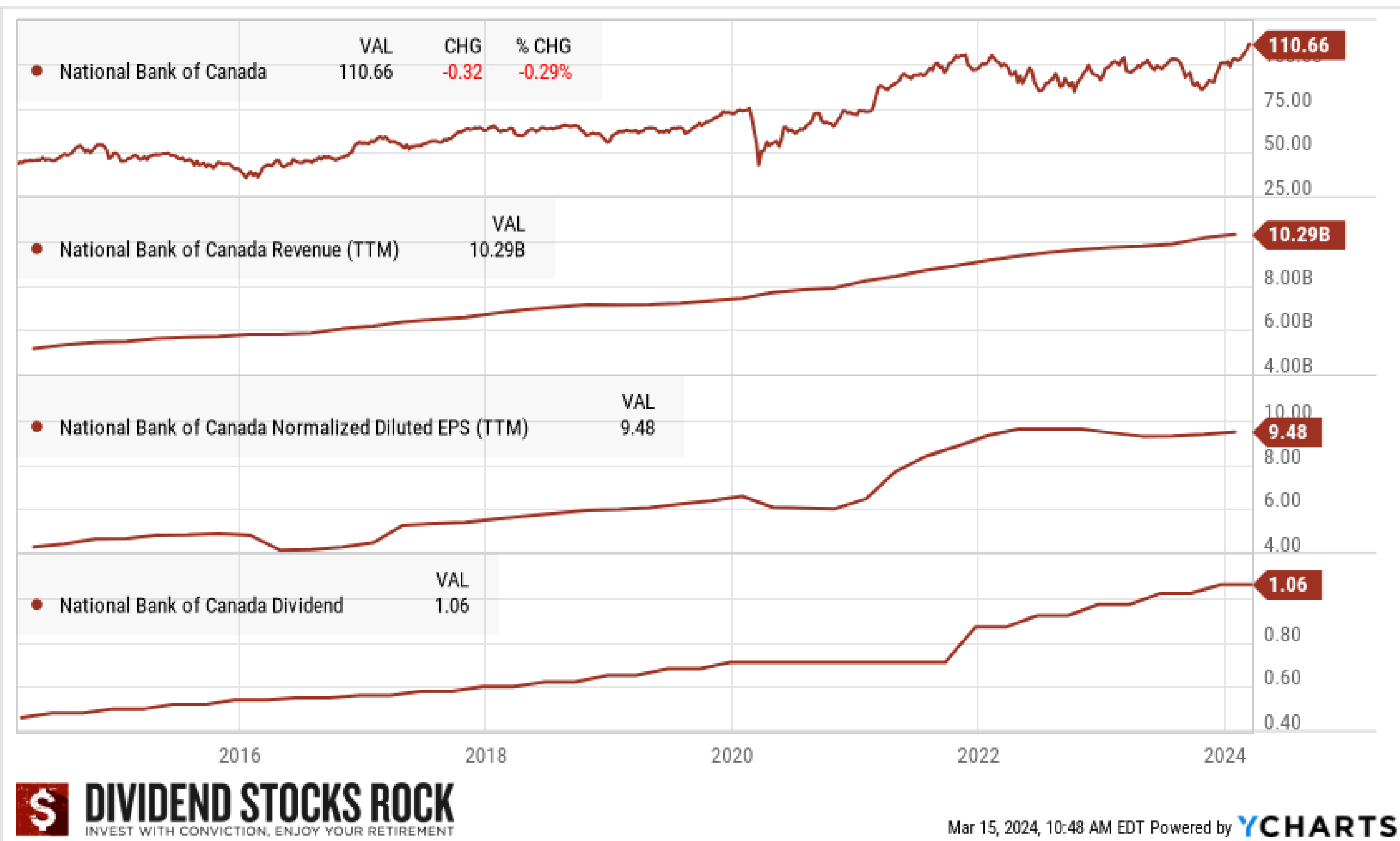
Cons:

- **Royal Bank could get hurt by a bearish housing market**: A rather small downside considering RY's strength and ability to face headwinds with its diverse business segments.

#1 National Bank (NA.TO)

Again, NA holds the top position in our Canadian banks' rankings for 2024. NA has targeted capital markets and wealth management to support its growth. Private Banking 1859 has become a serious player in that arena. The bank even opened private banking branches in Western Canada for added growth. It now shows great diversification across its business segments with 50% of revenue from outside classic savings & loans activities.

Since NA is heavily concentrated in Quebec, it has concluded deals to provide credit to investment and insurance firms under Power Corp. (POW). NA has shown strong results, and its stock outperformed the other Big 5 for the last decade. National Bank has been more flexible and proactive in growth areas such as capital markets and wealth management. NA is seeking more growth by investing in emerging markets; in Cambodia through ABA bank and in the U.S. through Credigy. We wonder if it can achieve more success than BNS internationally. It seems like it might have found the winning formula! It's one of the rare Canadian stocks with a near-perfect dividend triangle.



The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.

Pros:

- **Among the fastest growing wealth management businesses in the country**: NA has very strong brand recognition there. Since it had many loans in Western Canada, it opened private banking branches for high-net-worth clients only with the label Private Banking 1859.
- **Strong in capital markets**: NA's very active on the market. This creates more volatility, as is the case with BMO, but overall, it's been doing well, and making more money.
- **International branch and US segment**: Internationally, it focuses on Cambodia by buying ABA Bank. NA is trying to create growth outside of Canada by selecting emerging markets in Asia.
- **Heavily based in Quebec**: In the past, this was a reason for NA to be a little behind, but over the past 10 years, Quebec has proven its resiliency. It's not dependent on energy to grow its economy; Quebec has a Canadian economy similar to Ontario.

Cons:

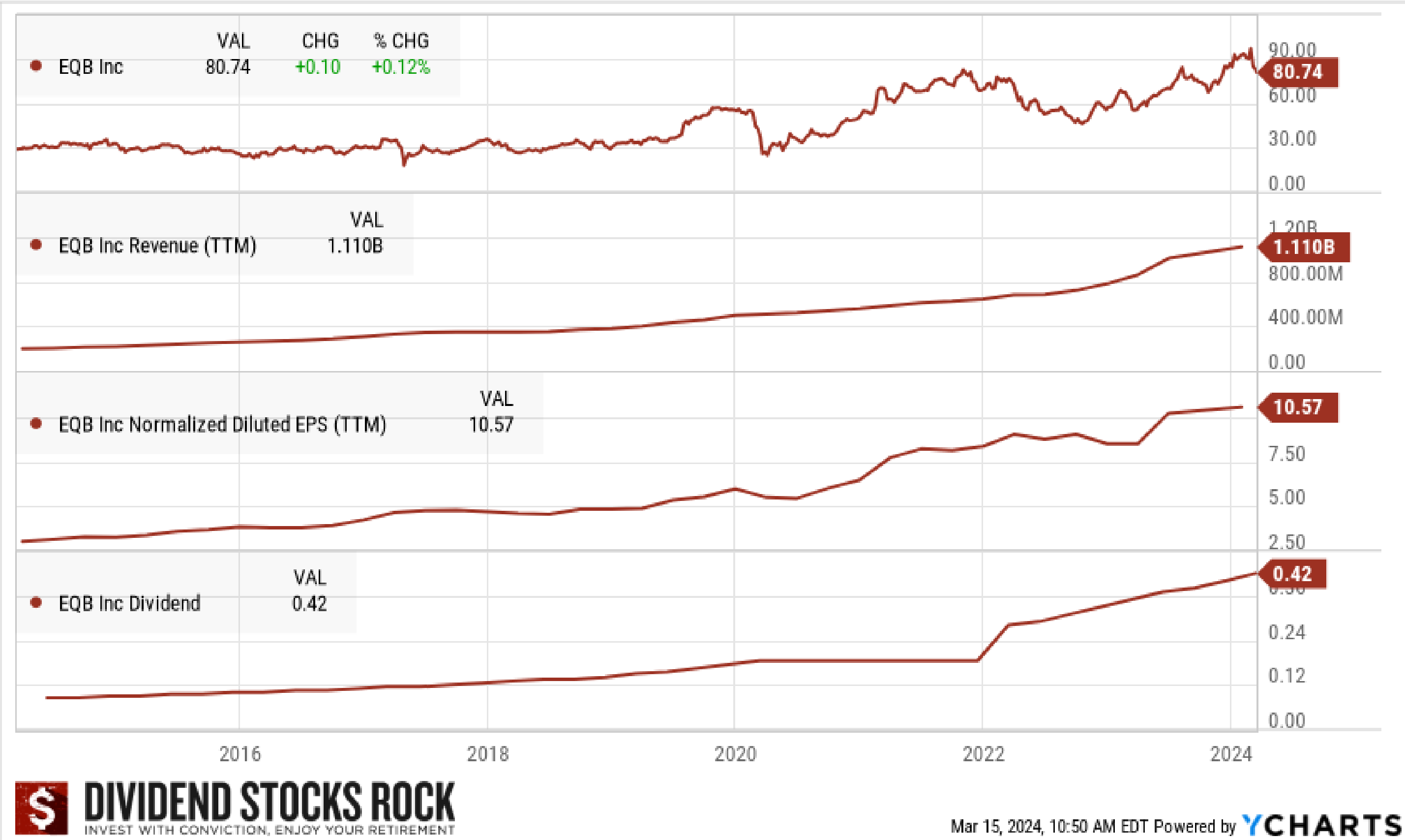
- **International branch and US segment**: We're going to see how this goes. Not my favorite part of the business model, but we like their focused attempts at diversifying their business.

EQ Bank

EQB has built an impressive business based on alternative-A borrowers who have a hard time obtaining prime mortgages from other banks due to credit factors such as impaired credit ratings, high debt levels, and unconventional income sources. Considered riskier than prime loans (but less than subprime loans), Alt-A loans come with higher interest rates than prime loans.

EQB's non-conventional business (including online presence and reverse mortgage products), along with its aggressive dividend growth policy, has made it popular with investors. It's drawing more and more customers to its digital platform. EQB exhibits a very strong dividend triangle and expects to perform well amidst a robust housing market and stable commercial real estate trends. Be sure to follow EQB's quarterly report to spot growth slowdowns or higher provisions for credit losses.

The bank has managed to sustain strong growth since 2021 and, surprisingly, it doesn't seem to have been affected by the slowing economy. It kept comparatively low provisions for credit losses in 2023 considering the interest rate hikes. Is EQB that good at managing its loans or are we going to see the true face of its credit underwriting practice during the next recession?



Pros:

- **Expansion:** The bank is expanding its lending activities through personal and commercial services and has reported impressive growth across all loan products and deposits over the past 5 years.

- **Solid growth trend:** A strong dividend triangle and 5-year annualized revenue growth of 21%, strongly fueled by commercial banking (up 20% in Q4 2023). After successfully purchasing Concentra Bank in 2022, perhaps more growth by acquisition is in the cards.

- **Strong dividend growth:** EQB has successfully increased its dividend each year since 2011, and has almost doubled their dividend between 2015 and 2019.

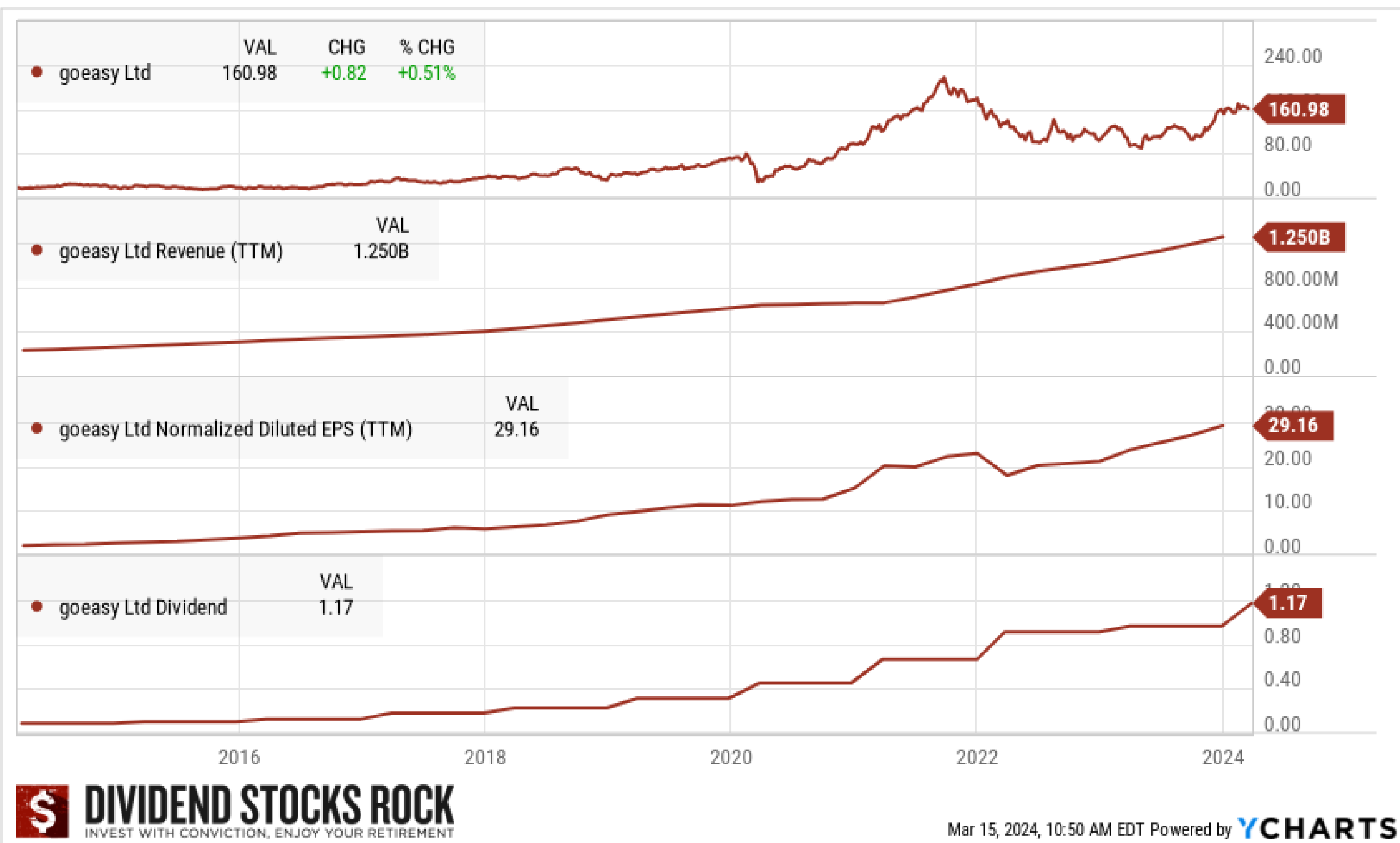
Cons:

- **High exposure to alt-a mortgages**: With its loan book growing at such a rapid pace, there is a risk of lending to the wrong borrowers. Mortgage applicants might be eligible for funds at the time of their request, but nothing ensures that they'll be able to make the payments for the next 30 years. Remember that higher interest rates have a lagging impact on the economy. We could rapidly see credit deterioration during a recession.

GoEasy

GoEasy provides leasing and lending services to non-prime borrowers—borrowers who, because of reasons such as limited credit history, low credit score, high debt levels, or history of late payments, aren't eligible for prime loans. Through its Easyfinancial brand, it offers unsecured and secured consumer loans. GSY's LendCare brand specializes in financing consumer purchases in the powersports, automotive, retail, healthcare, and home improvement categories. Lastly, the Easyhome brand supplies leasing services for household furniture, appliances, and electronics and unsecured lending products to retail consumers.

We were highly skeptical about GoEasy for a long time. We didn't think it could compete with banks and do well. Well, it's been growing at an impressive pace and has proven that it can manage its way through troubled waters. It made its way to my Buy List in January 2022 where it remained for nearly two years. Don't think we removed it because it's suddenly become a bad pick (actually, we're rating it as a 4 - Buy with a 4 - Good Dividend at DSR). We replaced it with another pick because, as we said at the time, "the narrative around interest rates driving us into a recession remains strong", which we still believe, and it was "time to offer you a new idea" on the Buy List.



Pros:

- **Resilience**: GoEasy survived the credit crunch and has since expanded its activities. When you look at its dividend triangle, you see constant quarterly revenue growth
- **Superb underwriting skills:** GSY is very adept at correctly assessing which consumers will pay their loans and which won't. This is what powers its continuous growth.
- **Reach:** With a national footprint of over 400 branches and stores across Canada and digital commerce-enabled platforms, GSY is everywhere credit is needed in Canada. Knowing Canadians' tendencies to borrow money to buy goods, GSY's strong growth is not surprising.

Cons:

- **Possible vulnerability to harsher conditions:** We wonder if GSY can support its dividend growth policy during tougher times. Can it take the hit from non-paying consumers when they lose their jobs? GSY performed admirably over the pandemic and its dividend triangle remained impressive. In early 2022 however, we saw EPS falling due to higher bad debts and expenses, but they seem to be picking up steam now. Let's keep an eye on how things develop from there.

FINAL THOUGHTS

Canadian banks are stable and resilient and can play a worthwhile role in any investor's portfolio. Again, we would always go with dividend growers and be very cautious with previous dividend cutters.

Look at Canadian banks as you would the salt you add to a hearty winter soup. A pinch or two makes it tasty and great. Too much salt, however, ruins it. Exercise the same caution with Canadian banks. Pick one or two, and don't add them all to your portfolio!

Cheers,

Claudia & Mike.

Invest with More Confidence and Less Stress

If you are like most investors, you constantly struggle with the right time to buy or sell. When you have losing investments, you get stuck by paralysis by analysis. This confusion hurt your portfolio and prevent you from enjoying your retirement.

Just look at how Rick solved his investing struggles and reached investing peace:

> *“One thing that I, struggle with is knowing when to let go of a losing investment when it makes sense to do so. DSR provides quarterly updates of each subscriber's portfolio (PRO feature) that provide value and dividend safety ratings for each individual holding. This is a really helpful guide as to whether it is time to consider selling a loser. Another very useful feature is that his report also provides potential replacements with better ratings. This gives me an independent viewpoint of whether my holdings are the best ones to keep going forward.*
>
> *One great part of the DSR service is Mike's inter-activeness with his subscribers. He does this regularly through both newsletters and webinars. His webinars are highly interactive, with subscribers able to make comments and input questions as it goes. Each and every time I have sent a separate email to Mike's service he has personally responded with helpful input. I recommend this service to anyone who is focused on dividend stocks and values a separate analysis of their holdings to help verify their portfolio's value and safety.”*

Rick Urquhart, DSR PRO members since September 25th, 2017.

If you hesitate to subscribe, let me offer you a 60-day refund period – no questions asked. If this membership doesn’t help you grow confidence and take actions with your portfolio, reply to any of DSR emails within the first 60 days of your subscription and we will send you back the money in full.

Click here and get access to DSR now*

You can forward this book to any of your friends who like dividend investing…

Cheers,

Mike, Passionate Investor
**Pssst! This is a lifetime discount; your price will never increase as long as you remain a member.*