



Intact Financial Is Your Best Bet for a Safe Dividend if Housing Crashes

Description

The Canadian housing market has had a great run. Now, dividend investors who want to own financial companies are beginning to look for options that will be safe in the event of a big housing correction.

In Canada, the banks have been fantastic performers, and that trend will likely continue over the long haul. With significant bank earnings coming from Canadian retail operations, Canada's red-hot housing market has been a core driver of revenue.

But record low borrowing costs have encouraged homebuyers to take on extensive mortgage debt. House prices have increased dramatically across the country, especially in Toronto and Vancouver, and talk of a housing bubble increases every week.

Once interest rates start to move higher, the housing market will cool off. A big jump in rates will likely trigger a serious correction.

When this happens, banks like **CIBC** ([TSX: CM](#))([NYSE: CM](#)), **Bank of Montreal** ([TSX: BMO](#))([NYSE: BMO](#)), **Royal Bank** ([TSX: RY](#))([NYSE: RY](#)), **National Bank of Canada** ([TSX: NA](#)), **Laurentian Bank** ([TSX: LB](#)), **TD Bank** ([TSX: TD](#))([NYSE: TD](#)), and **Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)) will see a drop in mortgage loans and likely incur charges on defaults.

Intact Financial

For investors who are looking to add a financial stock that benefits from Canadian home ownership but doesn't have the direct mortgage exposure, **Intact Financial Corp** ([TSX: IFC](#)) is a good bet.

As Canada's leading provider of property and casualty insurance, Intact Financial is a great company to add to your holdings as a solid long-term performer and a reasonable hedge against a correction in the housing market.

The company has three core divisions providing various service and product options to its clients.

Intact Insurance is Canada's largest provider of business, home and car insurance with an extensive

network of brokers set up across the country.

Intact's online division, Belairdirect, was the first insurance company in North America to provide insurance online. In today's busy world, many people don't have time to go and visit a broker to sort out their insurance needs. Customers can purchase products using the Internet or by calling the company's customer-service team.

For the past 20 years, Intact's Grey Power division has been extremely successful at targeting Canadians over 50. The company markets discounted car insurance to experienced drivers with clean driving records. Baby boomers are a big market in Canada and Intact is getting a good slice of their business.

Intact has increased its dividend every year and the current annual payout of \$1.92 per share yields 2.7%. The stock price is up more than 100% in the past five years.

A correction in the housing market will certainly have an impact on Intact's operations but not to the same extent that the lenders are exposed.

Even in tough times, this company has proven it can adjust and still reward investors. Intact continued to increase its dividend each year during the financial crisis. The banks didn't.

Intact's Q1 2014 earnings were impacted by an increase in claims caused by this year's severe weather events, but the overall management of the company remains extremely solid and a return to more reasonable weather conditions is expected.

The company has a strong balance sheet. It finished Q1 with \$670 million in excess capital and a Minimal Capital Test of 213%.

Intact manages its claims efficiently and continues to outperform its peers through strict pricing and underwriting discipline. As an option to diversify your holdings in financial companies, I think Intact is a good long-term bet for investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BNS (Bank Of Nova Scotia)
2. TSX:IFC (Intact Financial Corporation)
3. TSX:LB (Laurentian Bank of Canada)
4. TSX:NA (National Bank of Canada)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

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Date

2025/07/28

Date Created

2014/07/28

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