3 Bank Stocks With a 150-Year Dividend History

Description

Dividends are important to long-term investors for a variety of reasons.

As a source of supplementary income, dividends can provide a consistent and reliable stream of cash that is taxed at a lower rate than interest income from either bonds or Guaranteed Investment Certificates.

For investors looking to compound their earnings, dividend income can be reinvested in more shares using a dividend reinvestment plan, or DRIP. Companies will often allow the dividends to be reinvested at a discount to the market price. Investors enrolled in a DRIP also avoid the transaction fees that they would pay if they bought the shares in the open market.

What to look for in a dividend growth stock

An ideal company will have a track record of consistent payouts that increase on a regular basis. The dividend payout ratio, calculated using dividends paid divided by net income, should be low enough that the company also has extra funds available for share buybacks and the capital expenditures required to continue growing the business.

Here are three Canadian bank stocks that have been paying increasing dividends for more than 150 years and have very reasonable payout ratios.

1. Bank of Montreal

Established in 1817, **Bank of Montreal** (TSX: BMO)(NYSE: BMO) is Canada's oldest bank. It began paying dividends in 1829 and has given investors a slice of the profits ever since.

Today, the company is a diversified financial institution with significant operations in the U.S. Midwest as well as Canada. It had total assets of $582 billion as of April 30, 2014.

The current dividend of $3.12 per share yields 3.8%. The payout ratio is 46%.

For the dividend being paid on August 26, 2014, investors enrolled in the the dividend reinvestment plan will get new shares at a 2% discount to the five-day average market price preceding the common share dividend payment date.

2. Bank of Nova Scotia

In 1832, **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) opened for business in Halifax. The bank was initially set up to take advantage of the growing trade between North America, Britain, and the West Indies. The company declared its first dividend on July 1, 1833.

Today, it has operations that span the globe, with a core international focus on Latin America. As of April 30, 2014, the company had total assets of $792 billion.

The current dividend of $2.56 provides a yield of 3.5%. The payout ratio is 46%.

Bank of Nova Scotia no longer offers a discount for shares purchased under its dividend reinvestment plan.

3. Toronto Dominion Bank

Founded in 1855, **Toronto Dominion Bank** (TSX: TD)(NYSE: TD) opened its first branch on Church Street in Toronto in 1856. A year later, the company paid its first dividend.

Today, it is a banking giant, with operations primarily focused on the Canadian and U.S. markets. It had total assets of $896.5 billion as of April 30, 2014.

It pays a dividend of $1.88 that yields 3.3%. The payout ratio is 46%.

Recently, the bank has not offered a discount for shares purchased under its dividend reinvestment plan.

Are these dividends safe?

During the stock market crisis in 2008 and 2009, these companies maintained their dividend payouts.

Many market observers are concerned that a Canadian housing crash might be in the works. The banks will certainly incur losses if the housing pullback is severe.

While it is impossible to determine if the banks would be forced to cut their dividends, these three companies have the most diversified operations of the Canadian banks and should be best positioned to ride out a rough patch in the Canadian mortgage market.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)

3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BMO (Bank Of Montreal)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:TD (The Toronto-Dominion Bank)

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Date
2025/09/10
Date Created
2014/07/31
Author
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