



Dividends From the Financial Sector: 2 to Buy, and 1 to Avoid

Description

It must seem very strange to anyone not from Canada, but in this country the financial sector can be a great place to find dividends. That being said, not all dividends are created equal, so you don't just want to pick the biggest yield.

On that note, below are three dividends from the financial sector. Two look like great opportunities, while the third should probably be avoided.

Buy: Canadian Imperial Bank of Commerce

If you're looking for great dividends from the big five banks, look no further than **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)). The reason is simple: CIBC is focusing on plain old Canadian banking, a business that is very profitable but comes with limited growth opportunities. So one would think the bank would devote more of its earnings to dividends than its peers do.

That is not the case yet; CIBC still pays out a little less than half its income to shareholders, about in line with its peers. But if the bank sticks to its domestic-first strategy, then eventually its dividend could move up in a big way. And the stock already yields about 4%.

Buy: Manulife Financial Corp.

At first glance, **Manulife Financial Corp's** ([TSX: MFC](#))([NYSE: MFC](#)) dividend does not seem worth writing home about. After all, it only yields 2.3%, and hasn't been raised since being cut by half in 2009.

But looks can be deceiving. Manulife's yield is so low because it devotes less than a third of its income to dividends. This is a result of its struggles during the financial crisis, a time when the company was short of capital. So Manulife can be forgiven for wanting to build up capital, rather than pay out the bulk of its earnings to shareholders.

Thanks to that strategy, Manulife is better-capitalized than its peers. Manulife is also cheaper, again likely due to that strategy. So even though the company has a lower yield, the odds are on your side if you own the shares.

Avoid: Bank of Montreal

At first glance, **Bank of Montreal** ([TSX: BMO](#))([NYSE: BMO](#)) and its dividend look ideal. The company has been paying dividends for about 185 years, and currently yields nearly 4%, well ahead of Manulife.

But BMO itself has some issues. It trails badly in many Canadian banking categories, and as a result is less profitable in Canada than some of its peers. Secondly, growth will mainly come from the United States, a less profitable market.

The moral of the story should be simple: don't go chasing the biggest dividend. Even if you're an income investor, you should still focus on buying great companies at reasonable prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:MFC (Manulife Financial Corporation)
4. TSX:BMO (Bank Of Montreal)
5. TSX:CM (Canadian Imperial Bank of Commerce)
6. TSX:MFC (Manulife Financial Corporation)

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Date

2025/07/25

Date Created

2014/08/01

Author

bensinclair

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