3 Reasons to Buy and Hold Bank of Montreal

Description

The recent market mayhem has hammered stocks, and no industry has been hit harder than the financial sector.

Over the past month, shares of one of the country's largest lenders, the **Bank of Montreal** (TSX: BMO)(NYSE: BMO), have plunged nearly 10%. The stock's yield, which moves in the opposite direction to the price, has risen from less than 3.6% just a few weeks ago to nearly 4.0% today.

Is it time to sell? Nope. If you believe in buying wonderful businesses when the market throws a sale, then BMO could be worth a look. Here's why.

1. It has a wide moat

When Warren Buffett is asked what trait he looks for in a business, his answer is usually the same: a big, wide moat. A moat is some sort of competitive advantage that allows a company to earn excess returns for investors. In the same way it protected castles from invaders, a moat protects the business from rivals.

BMO has a moat around its business that is two miles wide and filled with angry sharks. Strict government limits on ownership, reserves, and lending keep foreigners out. That means it's almost impossible for new players to enter the business.

For shareholders, this has meant BMO can earn big, juicy profits quarter after quarter. Over the past five years, the company has generated a 14% average return on equity. These are levels foreign banks can only dream of.

2. It has lots of room to grow

BMO isn't the fastest-growing bank in the country, but it has still been able to crank out steady earnings growth. The company was well capitalized before the financial crisis thanks to good ol' fashioned Canadian conservatism. That allowed BMO to build out its U.S. business on the cheap.

Now that bet is paying off. Today, every American business indicator is on the upswing. That means more loans, mortgages, and credit cards. As a result, BMO's U.S. retail banking profits are growing at a healthy clip.

3. It's a dividend machine

BMO has paid a consecutive dividend for 185 years, the longest streak of any publicly traded company in Canada. And since 2012, the company has been in the habit of hiking its payout every other quarter. I'm willing to bet we'll see another increase early next year.

Best of all, you can count on BMO to maintain that dividend for another century to come. The company sports a rock-solid AA credit rating and cautious payout ratio less than 50% of earnings. That means BMO can easily cover its dividend with plenty of cash left over to reinvest back into its business.

Recommending a Canadian bank isn't one of the boldest recommendations I have ever made. But BMO's track record means this stock deserves a place in any portfolio. If you've been waiting for an opportunity to buy this company, the market just handed you a chance.

CATEGORY

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2. Investing

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