Bank of Montreal vs. Toronto-Dominion Bank: Which Is the Best Income Investment?

Description

The recent market mayhem has hammered equities, and no sector has been hit harder than the banks. At the height of the sell-off, the **S&P/TSX Capped Financials Index** dropped over 10% in the span of a few weeks.

But now that the carnage appears to be over, investors are starting to wade back into their favourite stocks. The **Bank of Montreal** (TSX: BMO)(NYSE: BMO) and the **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) are two popular picks because of their steady growth and reliable dividends. Let's take a look at these two names to see if one is a better bet for income investors right now.

Bank of Montreal

If you look up the word stability in the dictionary, it will have a picture of the Bank of Montreal next to it. Since 1829, almost four decades before Canadian confederation, the Bank of Montreal has never skipped a distribution payment to investors. Think of everything that has happened over that time… wars… depressions… asset bubbles… financial crises… the list goes on.

Yet this company coasted through every economic downturn the country has ever faced without missing a single dividend. In fact, through many of these tumultuous periods, the firm was actually able to increase its payout. And if history is any guide, shareholders will be able to count on those distribution payments for another century to come.

However, the biggest reason to like the Bank of Montreal: that big, juicy yield. At 3.8%, this stock has the highest payout of all the big Canadian banks. And with the company growing operations in the U.S., you can count on that distribution to keep growing in the years to come.

Toronto-Dominion Bank

The bull thesis at the Toronto-Dominion Bank is a little harder to appreciate. At a measly 3.4%, the stock's yield won't blow your socks off. But don't dismiss this company too quickly.

Toronto-Dominion is a great example of what compound growth can do to a dividend payout. Over the past two decades, the company has increased its distribution at a 12% annual clip. If you had bought and held the stock over that time, the annual yield on your original investment would be more than 35% today.

What if we were to play out this hypothetical investment for another decade? Assuming the bank can continue to grow its dividend at a 6% annual rate, the yield on your original investment would increase to 64% by 2024. Even though TD has historically yielded less than its peers, that dividend growth can really add up over time.

The bottom line

Both of these companies have a great track record of rewarding shareholders through dividends. That said, I lean slightly toward Toronto-Dominion Bank. Over the next decade, it is expected to grow earnings at a much faster clip. And while it's tempting to reach for higher yield today, dividend growth is much more rewarding over the long haul.

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TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:TD (The Toronto-Dominion Bank)
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