Why Royal Bank of Canada and Toronto-Dominion Bank Are Better Bets Than Bonds

Description

It seems amazing that so many people still love to buy bonds. Just look at where interest rates are – for example, a 10-year Government of Canada bond only yields about 2% per year.

If you're looking for income and security, you should instead be buying solid dividend stocks and holding them for the long term. Below we demonstrate why, using Canada's two largest companies – **Royal Bank of Canada** (TSX: RY)(NYSE: RY) and **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) – as examples.

Royal Bank of Canada

Based on Friday's closing price, you can buy shares of RBC and score a 3.75% yield, much higher than the 10-year bond yield. And these dividends are a lot less risky than you would think.

Just look at what happened during the financial crisis. Remember, this was the worst financial meltdown in 70 years, one that wiped out many banks around the world. Yet RBC didn't even cut its dividend. In fact, its dividend is 50% higher than it was in 2008.

Better yet, RBC pays out less than half of its income to shareholders. In other words, its net income could decline by 50%, and the dividend would still be affordable. This is what separates the bank from some higher-yielding names, many of which come from the riskier energy sector.

There is no reason why RBC can't raise its dividend by another 50% in the next six years. And if this happens, you'll be earning a 5.6% yield on your original investment. Meanwhile the GoC bond will still be earning 2%.

TD: Even safer

RBC is a good choice if you're looking for a little bit of excitement too. But if you're really looking for some safe income, TD is the better choice. It is much more concentrated towards retail banking, which tends to be lower risk. TD also places a particularly big emphasis on risk management, which helped it escape the financial crisis relatively unscathed.

But TD also has some important things in common with RBC. First of all, its dividend has remained rock solid for years. In fact, since 1970, its dividend has been raised over 60 times, and has never been cut. And like RBC, TD's dividend is about 50% higher than it was before the financial crisis.

Also like RBC, TD devotes less than half of its income to dividends. To illustrate, earnings per share totaled over $4 per share over the past 12 months. And the dividend only stands at $1.88 per year.

And finally, TD's dividend yields a respectable 3.4%, well above bond yields.

There are other dividend names you should consider instead of bonds, and three are revealed in the free report below.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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