# 3 Reasons the Big Banks Are Still Canada's Best Dividend Stocks

## Description

For decades, the big 5 banks have been some of Canada's most reliable dividend stocks. This is quite remarkable when you think about it. After all, banking can be a serious boom or bust business, as any American could tell you.



But today there are some serious concerns for the Canadian banks. Our economy is suffering from low oil prices, bank margins are being squeezed by low interest rates, and new technology companies are threatening to disrupt many of the banks' services.

That being the case, these companies are still arguably Canada's best dividend stocks. Below are three reasons why.

**1. A strong track record**

As mentioned, the banks have been some of Canada's most consistent dividend payers for a long time.

For example, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) has raised its dividend in all but three of the last 20 years. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) has raised its dividend more than 60 times since 1970. **The Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has raised its dividend every year but one since 1992. Even **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), both of whom struggled during the financial crisis, didn't cut their dividends at the time.

All told, none of the big 5 banks have cut their dividends since World War II.

**2. A low payout ratio**

To be fair, the banks have gotten themselves into trouble before. RBC lost billions in the early 1990s from real estate-related loans. The tech bubble led to billions in losses for TD. And CIBC has had plenty of struggles.

So why have the banks not had to cut their dividends? Well to put it simply, the banks only pay a fraction of their earnings to shareholders — typically 40-50%. So even if net income takes a hit, the dividend is still affordable. As a bonus, the banks are very well-capitalized, allowing them to keep paying dividends through the tough times.

By contrast, some of Canada's top-yielding dividend stocks (such as the telcos) pay out a large majority of their earnings to shareholders. Thus these dividends are more susceptible to a cut.

**3. Not as bad as you think**

Canada's economy may be struggling, but it will certainly pull through, for a number of reasons.

First of all, oil prices have stabilized, so we're unlikely to see a major bloodbath in Alberta. The loonie has weakened, which will help exporters. Drivers in Ontario and Quebec are enjoying lower gas prices. Houses in places like Toronto remain in high demand.

Tellingly, the banks have been able to maintain their sky-high earnings, and I don't see this changing for a long time. Dividend investors, take note.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing



**TICKERS GLOBAL**

1. TSX:BMO (Bank Of Montreal)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:RY (Royal Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

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