



Should Investors Buy Bank of Montreal?

Description

For the most part, 2015 was a decent year for **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). While it didn't hit its average earnings-per-share-growth target of 7-10%, it still experienced decent growth amid concerns of a big downturn. All of that aside, I believe that investors might want to consider buying shares of Bank of Montreal. There are a couple of reasons why I believe this.

Strong business

One of the primary reasons why I consider Bank of Montreal a smart investment is because of its strong, diversified business. Specifically, that diversification is from the many divisions within the bank, but it is also diversified geographically.

In the United States, Bank of Montreal's adjusted net income rose 22% to \$221 million in the fourth quarter across its 600+ branches. This is a big increase and one I expect to continue so long as the U.S. dollar remains strong. Since Bank of Montreal reports in Canadian dollars, it reports larger profits from U.S. earnings.

Further, its U.S. division should continue to grow because of smart acquisitions, such as the recent acquisition of the Transportation Finance division at **General Electric**. This expands Bank of Montreal's commercial loans by \$13 billion, which is fantastic. However, another reason I like this acquisition is because the Transportation Division accounts for 20% of all lending done for trucking businesses in the United States. That's a lot of market share.

In Canada, business is also moving along smoothly. Year over year, its capital markets division saw a 27% increase in net income to \$243 million. Its wealth management business saw a year-over-year increase of 8% to \$271 million. Finally, its personal and commercial banking units in Canada saw a 7% increase year over year to \$561 million.

However, it is Bank of Montreal's relatively low levels of risk that really hammer home the fact that it is a strong buy. Oil and gas companies account for only 2% of its total loans, which is incredibly small. While its housing division is not the most secure—with 47% of its loans uninsured and the loan-to-value ratio of those uninsured loans being 57%—I don't believe that there is much to be worried about.

If the economy gets much worse and we start to see some significant defaults on mortgages, Bank of Montreal might be in for some pain. But at the present time, I don't see much risk for the bank.

Dividends

This significant increase in income plus the relatively low levels of risk that the bank is exposed to allows investors to generate significant returns from a yield perspective. Based on current prices, the company pays a 4.66% yield, which is \$0.84 per share per quarter.

But it's not just the amount of the yield that is important, but also its stability. Bank of Montreal, in my eyes, is the most secure dividend payer on the market. Since 1829, Bank of Montreal has paid a dividend. Even through the two World Wars, the Great Depression, and the Financial Crisis of 2008, Bank of Montreal paid its dividend.

Bank of Montreal may not be the most-talked-about bank stock, but, in my opinion, it provides just the right amount of risk and reward that is known to make investors plenty of money.

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2. Investing

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1. Editor's Choice

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1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

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