2 Top Dividend Stocks on Sale

Description

Many investors are tempted to sell Canadian banking stocks these days. Their argument is that these top dividend payers are exposed to the slowing housing market, and it's prudent to look somewhere else.

During the past six months, shares of the biggest five banks have underperformed the broader index with **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) leading the pack, falling ~7%.

Relating Canadian banks to the nation's housing slowdown isn't without some logic. After all, mortgage lending is one of the biggest revenue earners for these banks. In the borrowing binge of the past decade, Canadian consumers have burdened themselves with a record level of debt as they took advantage of very low interest rates and benefited from the red-hot housing market.

Now that things have started to turn sour, especially in the nation's largest city, Toronto, where home sales plunged 40% in July when compared to the same month a year ago and prices down 19% from their peak, investors are getting nervous.

Shorting Canadian banks and buying the U.S. counterparts is a new strategy some analysts are recommending.

Further complicating the situation is the Bank of Canada's drive to raise interest rates, which is going to make it much harder for borrowers to afford mortgages, further slowing down the housing activity.

What's next?

I think this sell-off is a knee-jerk reaction to the changing economic situation in Canada. For long-term income investors, this dip in Canadian banking stocks provides a good buying opportunity. Here are some arguments to support my bullish call on Canadian banks.

First, I don't believe the Canadian housing market will crash. The current weakness is triggered by the government intervention to cool down the buying frenzy and facilitate a soft landing after a decade of gains in prices.

Second, Canadian banks' balance sheets are some of the strongest in the world. Their loan losses are well in control, and there are no signs that consumers are falling behind on their payments. Don't forget that Canadian banks emerged largely unscathed from the biggest financial crisis of our time in 2008.

So, here is my strategy to benefit from this weakness: Buy those banks that have been hurt the most. I'm bullish on all top Canadian banks, but CIBC and TD Bank provide the most compelling valuations because declines in their shares prices are the steepest.

Two top dividend stocks

Buying these stocks will provide dividend investors a great yield and a chance to benefit from their future growth potential.

CIBC's dividend yield, for example, is approaching 5%. Trading at the price-to-earnings multiple of 8.9, its stock is a great bargain.

Similarly, TD Bank is one of the best dividend-growth stocks to have in your income portfolio.

With the dividend yield approaching 4%, TD Bank shares are down about 11% from the 52-week high. I don't see why this bank should trade at a significant discount when compared its peers at a time when its U.S. operations are strong and provide a great hedge against potential weakness on the home front.

If you're looking to add some solid financial names in your portfolio, CIBC and TD Bank are the best names around.

CATEGORY

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1. Editor's Choice

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1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:TD (The Toronto-Dominion Bank)

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