A Defensive Canadian Stock to Buy During Market Volatility

Description

With many stock investors behaving irrationally during the extreme market volatility, you should start looking for attractive targets that will rebound once this uncertainty is over.

In Canada, banking stocks provide a great alternative to investors who don't like volatility. One of the main differentiating factors for Canadian banks is that they operate in an oligopoly where competition isn't too harsh. This advantage makes them good defensive plays for investors who are focused on stability and dividend income.

I don't think the current market downturn is a beginning of a crash, but if you compare the performance of Canadian banks with other developed world lenders during the last financial crisis, you will note that Canadian banks performed much better.

The nation's five top lenders have been through many recessions, financial crises, and upheavals, but they have rarely disappointed their long-term investors.

Due to their solid position in Canada and increasing presence globally, I've always recommend that long-term income investors include at least one or two banking stocks in their portfolios.

Here is my favourite Canadian banking stock you may consider adding to your buy-and-hold portfolio.

Toronto-Dominion Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is down about 4% during the past five trading days amid the global sell-off, but there is nothing on the horizon that suggests that this top lender is facing a tough time.

Both Canadian and U.S. economies are going strong, forcing the central banks to hike interest rates. This combination is great for lenders, which make more money on their credit lines, loans, and mortgages when interest rates spike.

For long-term income investors, TD Bank also offers an attractive dividend yield and potential for capital gains. TD Bank's dividend is solid. It currently pays a 3.3% dividend yield. This dividend has grown about 11% on annualized basis in the past two decades, putting the lender among the top dividend payers in Canada.

And with a relatively safe payout ratio of between 40% and 50%, there is a good chance that investors will continue to get this growth going forward.

U.S. diversification

With a leading position in Canada, TD Bank is also one of the 10 largest lenders in the U.S. with 26,000 employees and deep roots in the world's largest economy, going back more than 150 years.

This huge presence in the world's largest economy makes TD Bank a great diversification play. The lender generates about 30% of its net income from U.S. retail operations. The bank also has a 42% ownership stake in TD Ameritrade with a fast-expanding credit card portfolio.

The bottom line

Trading at $71.68 a share at the time of writing, TD Bank offers a good entry point to investors after a recent dip. I think TD is in a good position to resume its upward journey once this market correction is over and sanity prevails.

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hanwar