Invest in the Canadian Banks When They Hit This Important Buy Point

Description

The Canadian banks are cash-generating machines. As far as businesses go, they've been nothing but solid for decades. Over and over again, these diversified businesses pump out excellent results, beating expectations again and again. In the wake of the financial crisis, Canada's banks were praised by nations the world over for their conservative lending practices, strong balance sheets, and prudent business strategies.

While I prefer **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), **Royal Bank** (TSX:RY)(NYSE:RY) and **TD Bank** (TSX:TD)(NYSE:TD), any of the banks are generally worth owing. Of the three, BNS is generally a way to gain exposure to Latin America. TD Bank is a great way to gain access to the United States, and Royal Bank has operations in the United States, Europe, and Asia. With these three banks, you can effectively globalize the financial side of your portfolio.

Aside from their geographic exposure, a good way to determine a buy point for the banks is to wait for their dividends to hit 5% of their current share price. Why 5% as a buy point? Well, its a rather arbitrary number, but a dividend of this rate has frequently represented a bottom in the share price in the event of a drop in the share price. The 5% mark does not come frequently.

The last time the shares of all three companies dropped to a yield of 5% was in the oil-inspired pullback of 2016. It can be a bit of a wait to purchase the shares at this yield, but it is worth it. In 2016, for example, BNS was around $54 a share at its low point and yielded around 5.6%, and it now trades at around $70 a share.

There are two ways the share price can reach 5%. First, the shares can drop in value until the yield reaches the 5% value. The second way is by the banks raising the dividends. The Canadian banks have been dividend-raising machines, with the yields growing at a healthy clip over the past few years.

Out of the three banks listed here, BNS raised its quarterly yield by 3.7% in August, TD Bank raised its own payout by 11.7% in March, and Royal Bank increased its dividend by 4.3%. If the share price were to remain stagnant, the dividend could eventually grow to 5% of the share price.

Buying the Canadian banks at a dividend yield of 5% takes patience, but the opportunity does come around every couple of years. At the moment, these company's pay decent yields, but have not yet reached the 5% mark. If the market downturn is to continue over the next few weeks, their shares could soon fall to that yield level.

Right now, BNS is temptingly close to the 5% mark at 4.86%. Royal Bank is drawing closer, having crossed the 4% mark to now sit at 4.16%. TD Bank has the farthest to go, having only fallen to the point where the yield is at 3.72%. If the market continues to slide, these stocks could reach a buy point in short order. Get your cash ready to these solid Canadian institutions and collect their dividends for the long run.

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TICKERS GLOBAL

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2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:RY (Royal Bank of Canada)
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