Bet on a TSX Index Rebound in 2019 With This Dividend Stock Yielding 6.9%

Description

The **S&P/TSX Composite Index** shed 32 points on December 13. The TSX has dropped 9% in 2018. This would represent its first negative year since 2015, when the index dropped 11% on the year. The only years when the TSX suffered back-to-back negative losses were 2001 and 2002. Of course, Foolish investors know not to rely on past performance as a future indicator.

Like almost every other economy in the developed world, Canada is facing challenges in 2019. The Bank of Canada has moved to “normalize” the benchmark rate over the past several years, but rate tightening has put the squeeze on consumers. **Citigroup** economist Dana Peterson included Canada in a report on nations most at risk of a credit crisis. This is according to measures of debt service ratios taken through the third quarter of 2018. “Canada’s current DSR suggests risk of financial crisis within three years, by our estimates,” the report states.

Policymakers are acutely aware of the pressure that rate tightening is having on consumers and the financial sector. The Bank of Canada and the U.S. Federal Reserve have both hinted that rate hikes could be paused in 2019 if economic conditions worsen. Odds makers expect the U.S. Fed to move forward on one more rate hike in 2018 next week.

How will this affect some of the top financial stocks on the TSX?

IGM Financial (TSX:IGM)

IGM Financial is the largest non-bank affiliated asset manager in Canada. Shares of IGM have plunged 26.7% in 2018 as of close on December 13.

In mid-October I discussed several reasons for investors to turn to blue chip stocks over passive investing. The passive investing craze ignited in the period following the 2007-2008 financial crisis. There have been massive outflows from mutual funds to ETFs and Index funds during this period, but these investment vehicles have not been tested by violent market shocks.

Rough market conditions have seen redemptions eat into what have been solid investment fund sales results for IGM. In the first nine months of 2018, IGM reported investment fund net sales of $610 million compared to $1.6 billion in the prior year. The company reported investment fund net redemptions of $64 million in Q3 2018 compared to net sales of $287 million in the previous year.

All things considered, IGM has managed to weather the 2018 storm. The company reported adjusted net earnings of $222.7 million or $0.92 per share in Q3 2018 compared to $173.4 million or $0.72 per share in the prior year. IGM declared a quarterly dividend of $0.5625 per share which represents an attractive 6.9% yield.

IGM stock last posted an RSI of 36, just outside of oversold territory. However, shares are hovering around 52-week lows as we approach the midway point of December. 2019 will be a year of clenched teeth for investors. IGM provides a very nice dividend that will allow investors a bit of a hedge in hopes of a bounce back on the TSX Index.

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