The Scotiabank (TSX:BNS) Dividend Is a Thing of Beauty

Description

As a stock plunges, its yield swells by a proportional amount, and vice versa. So, for Foolish income-oriented investors with cash to put to work, we actually want our favourite dividend stocks to fall in price because the yield will grow to levels that'll allow us to obtain what I'm going to call as "bonus yield."

As you may know, there are two ways that a stock's yield can rise. The first is through a dividend hike, and the second is through a stock's depreciation in price. The former effect benefits all shareholders, but the latter is only available to those willing to go against the grain by buying shares as they depreciate in value. As a stock continues to fall, the bonus yield (the excess yield relative to a stock's historical average) may not be available for an extended period.

For solid blue chips like **Scotiabank** (TSX:BNS)(NYSE:BNS) (a.k.a. Bank of Nova Scotia), the time window to "lock in" a bonus yield on the dip may be limited, as other income-oriented investors scoop-up shares on the dip.

While it's easy to get caught up in the macro fears, with the Canadian banks, one thing is for certain: you're getting a safe dividend that'll increase every single year, recession or no recession.

With that in mind, it's not a mystery as to why many money managers hold huge positions in Canada's Big Six banks, with an overweighting on the best-valued bank stock at a given point in time. After the October-December Trump slump (or Powell punch), all banks have fallen such that their yields are the highest (and valuations the lowest) they've been in recent memory.

Short-sellers have targeted Canadian banks for years now, and thus far, they've been completely wrong. Sure, national consumer debt is ridiculously high, and the housing market may be on an unstable foundation, but I believe that the bank shorts will continue to bleed year after year because they're underestimating the liquidity of Canada's beefy financial behemoths.

Foolish takeaway on Scotiabank

If you're looking to lock-in some "bonus yield," Scotiabank is a solid choice, with its dividend currently yielding 4.7% with the stock trading at just 9.8 next year's expected earnings.

As Canada's most international bank, last year's results have come under pressure due to the pressured emerging markets. In the year ahead, I expect that Scotiabank could make up for lost time, as the U.S. dollar weakens versus other currencies due to what I believe is a now more dovish Fed.

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