Dividend Investors: One of the Best Canadian Stocks to Buy in 2019

Description

In a market where you see a lot of conflicting signals, it's not easy to pick stocks for your dividend portfolio. Unfortunately, 2019 is shaping up to be a year when the risks to equities are growing.

We have slowing global growth, especially in China, where we have a threat of a full-blown trade war between the U.S. and China and very unstable energy markets. In this environment of uncertainty and fear, you'll be right to make your investment decision very carefully and take refuge in stocks that are low risk and can rebound quickly when the skies get clear.

Canada's top five banks offer one of the best options to investors who want to play safe and who have a long-term investment horizon. These lenders have been through many recessions, financial crises, and upheavals, but they have rarely disappointed their long-term investors.

Among them, I really like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). Here are the two top reasons that make this stock a relatively safe bet for income investors.

Wide economic moat

Companies that command durable competitive advantage are generally the ones that do better in market downturns. No doubt their stock prices will fall in a broader sell-off, but their losses will be much less than the high-growth cyclical stocks. And they will recover quickly once the markets are back to their normal trading pattern.

TD Bank is the largest lender in Canada and one of the 10 biggest banks in the U.S. That leadership position makes its stock a strong candidate for your defensive portfolio. Its wide presence in the U.S. makes TD Bank a great diversification play as well. TD generates 27% of its net income from the U.S. retail operations.

The bank also has a 42% ownership stake in TD Ameritrade with a fast-expanding credit card portfolio. Following its aggressive growth in the U.S. during the past decade, TD now runs more branches south of the border than it does in Canada.

Growing dividend income

TD Bank's dividend is solid. It currently pays a 3.59% dividend yield that comes to $2.68 a share. 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, even if the bank faces some short-term headwinds.

The bank is forecast to grow its dividend payout between 7% and 10% each year going forward. That growth offers a good hedge to income investors if the economy slows down, as their cash flows are likely to remain strong. This solid dividend also offers a good way to get exposure to the U.S. financial market without any foreign exchange cost.

Bottom line

No doubt banks are exposed to the economic growth and TD, too, won't be able to escape the impact of a possible slowdown in North America. But I have no doubt that it will emerge stronger from any economic shock, just the way it did after the 2008 Financial Crisis.

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