Despite Headwinds, Canadian Banks like Toronto-Dominion Bank (TSX:TD) Should Remain Key Holdings in Your RRSP

Description

While investors and stakeholders alike are coming to terms with the Canadian economic realities that show a softening of economic growth and increasing headwinds, Canadian banks have continued to move forward with their businesses, paying close attention to the mounting risks out there.

So, after an exceptional long-term performance by the banks, giving RRSP investors ample capital gains as well as dividend income, we are questioning whether this is coming to an end — at least for now.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is down 7% from its highs. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is down 13% from its highs.

But don't despair, because Canadian banks remain pillars of stability, and these bank stocks remain an essential part of investors' portfolios for RRSP long-term wealth creation.

I will highlight these two Canadian bank stocks, each with their own investment merits and both very attractive long-term buys. Here are the key reasons why these Canadian bank stocks should remain an essential part of your portfolios.

Own for the dividend income

While CIBC stock has been among the more volatile stocks within the group, CIBC has also continued to increase its dividend in the last many years, and with a current dividend yield of 5.13%, this stock certainly pays investors to wait out the risks.

As for TD Bank, it has increased its dividend by a 10-year compound annual growth rate of approximately 10% — the highest among its peer group.

The latest 12% dividend increase and the once-a-year dividend-increase policy is a testament to the bank's strength.

Own for predictability and resilience

Canadian banks are well capitalized and regulated in order to ensure stability and predictability. They have been beacons of strength in investors' portfolios, providing increasing dividends as well as strong capital appreciation for solid long-term wealth creation.

The 2008 financial crisis certainly tested Canadian banks, but they came out of it better than ever — a testament to their strength.

Since the lows of the crisis, CIBC stock has returned 160%, and its dividend yield has consistently been higher than the rest. Now, let's take a look at TD Bank's stock price action to see how the stock has recovered since the crisis. Not surprisingly, the stock outperformed, increasing more than 300% since the lows of the crisis.

Both banks bounced back from a crisis. This is key, because we can't always avoid crises, but we need to be able to bounce back.

Final thoughts

CIBC stock's valuation continues to lag the group, as it has a greater exposure to Canada and is therefore more vulnerable to the slowing growth of consumer lending, and its greater exposure to mortgage lending than its peers. This valuation gap leaves room for future outperformance by CIBC stock.

TD Bank stock remains the golden standard of Canadian banking stocks and remains a top pick.

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Author
karenjennifer