Should You Buy TD Bank (TSX:TD) or BMO (TSX:BMO) Stock for Your TFSA?

Description

Taking stock investing into one's own hands is an increasingly popular investment choice. While employing a stockbroker or other portfolio manager gives a newcomer some peace of mind, especially if time or confidence are in short supply, stashing a diversified basket of stocks in a Tax-Free Savings Account (TFSA) without outside management is becoming a common route to defensive passive income.

It certainly makes sense, with the amount of savings one can keep in a TFSA piling up every year. In short, it's an excellent way to grow a basket of stock investments, with a popular strategy being to use the dividends one earns to increase one's holdings. One of the hardest things to do, though, is to decide exactly which stocks belong in a savings account. The most obvious answer is "Dividend Aristocrats" — defensive blue-chip stocks with stable, growing payments.

Bank on the Big Five for safe TFSA investing

A current analyst consensus puts **Bank of Montreal** (TSX:BMO)(NYSE:BMO) closer to a hold than a moderate buy. However, there's a case to be made for holding BMO stock in your TFSA. Let's start with a dividend yield of 4.16%. BMO's spread of ETFs is perennially popular with investors, since they spread risk and require very little management.

This inflow of funds combined with diversification across products, services, and regions (look at BMO's assured straddling of both the U.S. and Canada) makes its stock a stable and relatively worry-free investment — just right for a TFSA or other low-maintenance, long-range portfolio. Indeed, BMO's fast growth south of the border gives Canadian investors defensive access to the U.S., which accounts for almost a third of BMO's income.

If you like American exposure, you could add **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock to your TFSA. With increasing business coming from American loans and deposits and driving its growth, TD Bank is a top choice for exposure to the U.S. market. With a dividend yielding 3.87%, TD Bank can boast 0.98% one-year total returns. While the yield is lower than BMO's, it's actually more rewarding overall: compare TD Bank's 0.98% to BMO's total returns for the same period, which are negative by

2.7%.

In terms of growth, BMO has grown its revenue by 15.5% over the past 12 months. Not bad at all, though TD Bank's revenue has increased by even sturdier 17.47%. TD Bank is therefore looking more solid overall, though both banks have reduced the risk from defaults and a slowing mortgage market by diversifying into the States. Going forward, this strategy is likely to continue driving growth for these two Big Five behemoths.

The bottom line

While BMO pays the highest dividend yield of the two financial institutions, TD Bank is the more profitable bank overall and has returned more over the last year than BMO. In the end, it comes down to risk and reward: TD Bank is lower risk, but BMO is higher reward in terms of dividend yield, meaning that a TFSA investor needs to decide which of these two aspects is most lacking in their portfolio.

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