



Buy Opportunity: 2 High-Yield Dividend Stocks

Description

Today marks a great day to buy **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) stock. On a slight earnings miss, the stock fell 4% on market open, despite holding dividends steady at \$1.03 per share, up 7% from last year. Return on equity rose to 13.5% from 12.3% for the third quarter of 2019 ended July 31.

Investors reacted more favourably to **Bank of Nova Scotia's** ([TSX:BNS](#))([NYSE:BNS](#)) earnings. The stock rose approximately 1% on market open. The bank beat earnings expectations and raised its dividend to \$0.90 per share — a 6% increase from last year. Return on equity fell to 11.5% from 13.1% for the third quarter of 2019 ended July 31.

TFSA investors should be on the lookout for stable [dividend-paying stocks](#) like BMO and BNS. For over four decades, these banks have consistently increased shareholder dividends. As interest rates stagnate globally, TFSA investors should consider banking stocks relatively safe investments with above-average returns.

Either stock would serve a TFSA investor well. Bank of Nova Scotia offers a higher dividend yield than Bank of Montreal, although the difference is under half a percent. Post-earnings, while the stock is down, investors should consider increasing holdings of BMO stock, as the price fall represents an excellent buying opportunity.

Both stocks are down almost 14% for the year. Long-term investors should not worry about the stock price of major banking institutions with over a 200-year history of market power. Thus, banking stocks should give investors a reasonable level of liquidity over the long term.

Here's a breakdown of the significant issues affecting TSX bank stocks.

South America's economy is booming

Latin America's economy is booming. Consumers have extra money to spend on clothes, smartphones, and other gadgets. Powerful South American economic activity is good news for Bank of

Nova Scotia.

The bank has focused on expanding operations in South America and has had great success in Peru and Chile. In fact, the international expansion is paying off with double-digit earnings growth. In the past year, BNS acquired 68.19% of BBVA Chile and 51% ownership of Banco Cencosud in Peru.

Loan defaults rise

Loan defaults are on the rise, but that more likely reflects routine cyclical adjustments. Although Canadian household debt-to-income ratios have been rising, Canadian banks maintain high capital ratios around 11%. The bottom line is, the banks are more than prepared to handle a rise in credit defaults.

The ever-increasing interest in preparing capital positions for asset price fluctuations makes banks one of the most profitable risk-adjusted investments.

Bank of Montreal CEO Darryl White commented on the banks' continued efforts to focus on tenable growth: "Our capital position remains strong at 11.4%. We are taking actions to continue to position our businesses for growth and sustainable [long-term performance](#)." The priority to maintain safe capital positions should comfort TFSA investors interested in safe, high-yield investments.

U.S. and Canadian retail growth stagnates

U.S. and Canadian revenue growth did not serve Bank of Montreal as well as expected last quarter. Nevertheless, pre-tax profit growth stands at 9% due to healthy domestic activity.

Moreover, Bank of Montreal is not concerned about lower credit quality — noting that the small increase in credit losses are independent of loan quality. With the strong backing of government insurance, the decline in profit due to credit risk should not be a concern for long-term investors.

Trade war uncertainty weighs on capital markets

Bank of Montreal reported a 13% decrease in capital market income for the quarter, or \$286 million less than the prior year. This decline offsets profit growth in other areas, resulting in only a 1% increase in reported net income.

Low interest rates and volatile trade tensions certainly make Bank of Nova Scotia a slightly more attractive option compared to Bank of Montreal. BNS has focused more on the South American market than BMO, which has built a strong U.S. strategy.

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