



Royal Bank of Canada (TSX:RY) Is a Top Stock for Your TFSA

Description

One of the easiest and fastest ways to create wealth is to invest in high-quality, dividend-paying, blue-chip stocks with a long history of regular dividend hikes. By investing in such stocks, like **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), you can access the power of compounding and boost returns, allowing you to create wealth faster over the long term.

The [best vehicle](#) to hold such an investment is a Tax-Free Savings Account (TFSA) because of its tax-sheltered nature. This is because typically, all dividends and capital gains earned in a TFSA are tax-free for the life of the investment.

Solid results

Royal Bank is fast shaping as one of the best buy and hold stocks for long-term wealth creation. It has a long history of growing earnings at a steady clip and, like its peers, emerged from the Great Recession in relatively good shape because of its prudent approach to mortgage underwriting and risk management.

For the third quarter 2019, Royal Bank reported some solid results regardless of choppy markets and fears of an economic downturn. Net income shot up by 5% year over year to \$3.3 billion on the back of a solid 10% increase in net interest income driven by robust loan growth in its Canadian banking and U.S. wealth management businesses.

It was Royal Bank's personal and commercial banking, wealth management, and insurance businesses that were responsible for notable growth of its bottom line, with each experiencing 10%, 11% and 29% year-over-year net income growth, respectively.

That more than offset a 6% decline in net income for the bank's capital markets division, which continues to suffer at the hands of an uncertain global economic outlook and choppy financial markets.

Royal Bank's earnings should continue to grow for the foreseeable future, despite the headwinds ahead. Its wealth management business is performing exceptionally well, reporting record third-quarter

2019 earnings. The bank is focused on expanding that business further, adding its assets under management and fee earnings client base.

Royal Bank also reported some credible risk metrics, including an 8% quarter-over-quarter decrease in the value of impaired loans to \$399 million and a low gross impaired loans ratio of 0.47%, which is 0.02% lower than the previous quarter.

This indicates that Royal Bank's credit portfolio is in solid shape, which, when coupled with a common equity tier one capital ratio of 11.9%, demonstrates that the bank is on a solid financial footing.

When combined with 36% of the bank's Canadian mortgages being insured and the uninsured portion of that portfolio possessing an average loan-to-valuation ratio of 52%, Royal Bank is well positioned to [weather](#) an economic downturn.

Royal Bank's steady earnings growth along with its quality credit portfolio and solid balance sheet has supported its ability to increase its dividend for the last eight years straight to see it yielding a juicy 4%. This underscores why it is a strong candidate for any investor wanting to maximize their returns.

Foolish takeaway

By utilizing Royal Bank's dividend-reinvestment plan, investors can use their dividends to acquire additional shares at no additional cost, allowing them to access the power of compounding and thereby boost their returns.

If \$10,000 was invested in Royal Bank 10 years ago, and all dividends were reinvested, it would now be worth \$25,650, which is an annualized return of just under 10%. Had the dividends been taken as cash, the value of the investment falls to \$22,521, giving an average annual return of 8.5%.

This highlights just how effective Royal Bank is as an investment to build wealth.

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Date

2025/07/04

Date Created

2019/08/29

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