A Top Dividend Stock to Buy When the Next Market Crash Comes

Description

Canada's dividend stocks have had a good run this year in anticipation that a potential economic slowdown will provide investors decent cash flows if they have a portfolio consisting of quality names.

This theory was further cemented when the global central banks moved to the sidelines and stopped hiking interest rates. This move made Canada's top dividend-paying stocks more appealing to global investors who were struggling to find higher yields elsewhere.

With that backdrop in mind, you probably won't find Canada's banking stocks too attractive right now, as their prices remain elevated, making it tough for dividend investors to buy them at these high valuations. But, in my view, that scenario could change quickly if the risks to growth escalate and the U.S.-China trade war continues.

If you are one such investor sitting on the sidelines to wait for a better time to buy these stocks, the chances are that your moment to strike is probably getting closer.

Among the top five Canadian banks, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is one of my top picks to consider. TD stock has gained about 9% this year, but it remains vulnerable if the market tanks and investors see signs of worsening of credit quality.

Nigel D'Souza, financial services analyst with **Veritas Investment Research**, said in a recent interview with *BNN* that credit risks will likely remain elevated, as Canadian lenders face the fastest rate of commercial and consumer insolvencies since the financial crisis.

If that happens and TD Bank stock slips into a bear market, meaning a correction of 20% or more, that will be the ideal time to snap up this great dividend stock.

One of the main attractions that make TD Bank a top stock to buy in case the stock market crashes is that it's been very consistent in paying dividends, even during many economic cycles. The lender distributes between 40% and 50% of its net income each year in dividends, while maintaining a safe payout ratio.

This generous dividend policy is a great incentive for investors who want to remain invested and earn a regular flow of income during a recession. TD's ability to generate cash for its investors is supported by its strong retail-banking operation in both Canada and the U.S.

In Canada, it's the second-largest lender. From the U.S., TD roughly generates about 30% of its net income, mostly from the U.S. retail operations. The bank also has a 42% ownership stake in **TD Ameritrade** with a fast-expanding credit card portfolio.

Bottom line

After a 10.4% increase in its payout in February, income investors in TD stock now earn a $0.74-a-share quarterly dividend, which translates into a 4% yield on yearly basis. That yield is still impressive given the very low-rate environment in North America. But I believe investors will get a better pricing to enter this trade and waiting on the sidelines is a good strategy.

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Date
2025/07/02
Date Created
2019/10/15

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