Create a Monthly Retirement Stream of $4,000 With This North American All-Star Bank Stock

Description

I know a lot of people in their 40s that have one thing on their minds: how do I live on my meager $1,000 CPP payment? This piqued my curiosity, and I started looking at how much money it actually takes to comfortably retire in Ontario, assuming the house is paid off and there are no money-draining mortgage payments to worry about.

I was able to determine that an individual in reasonably good health can retire comfortably with a pre-tax monthly income of $4,000. So, the next question was how to go about creating a stream like that. I started with the average savings level in the group of people I know. Between their RRSPs and TFSAs, most people had a small nest egg of $100,000 saved up.

So then, I got to thinking about the age-old question: if I could only invest in one stock for a reliable monthly dividend payment of $4,000 a month, which stock would I go with? The simple answer is that while there are a few absolutely stellar long-term investments to choose from, I would plunk the $100,000 into **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

TD has proven that it is able to reliably grow its earnings and dividends over the ultra-long term as well as be innovative to ensure it continues to grow at historical levels.

11% annual dividend growth is a financial miracle

I want to make sure my readers understand the beautiful dividend math behind the promised $4,000 dividend stream.

There are not too many Canadian stocks that can boast of the stock price stability that TD provides coupled with the long-term growth rates that we can "bank on" — pun intended. Since 1999, TD has grown its annual dividend from $0.33 to $2.89, which equates to 11% annual dividend growth.

It is also important to know that TD Bank never cut its dividend during the financial crisis of 2009, despite a global crunch, which took down the stock of all Canadian banks. This is an important signal of financial strength and exactly the sort of proof of stability that retirees need.

So, if a 40-year-old takes $100,000 today and buys TD stock, that amounts to 1,330 shares and a dividend stream of about $3,850 per year. Assuming that TD continues to grow its dividend annually at an 11% clip, that dividend stream will be almost $47,000 in 25 years, just in time for the standard retirement age of 65.

This annual stream equates to about $4,000 per month in dividends, which is exactly what I believe a typical retiree in reasonably good health needs in Ontario.

Can TD keep growing?

TD has a problem that most banks would die to have. TD is a deposit-rich bank, and it needs ever more avenues to convert those deposits into loans. Banks make money when they take deposits, which they have to pay maybe 0.5% interest on and convert that to a line of credit that earns them 5%.

The highest-margin products like credit cards, auto financing, or lines of credit also have greater risk associated with it, but if banks can manage credit risk appropriately, then these avenues are profitability home runs.

The best way to measure credit risk is the provisions for credit losses (PCL) that a bank reserves on its books. The greater the PCLs, the more trouble the bank is in. A PCL level under 40 bps is fantastic. TD has a PCL of around 38 bps, which means there is almost negligible stress in its credit pipeline — something that investors should cheer loudly.

Number one in credit cards is a great place to be

TD is the top credit card issuer in Canada measured by outstanding card loan balances and is also an issuer of high-value brand cards, including TD First Class Visa and TD Aeroplan Visa cards.

These specialty rewards cards are customer favourites, but what is more important is the fact that most customers that have these cards also have an excellent credit profile. These are mostly white-collar professionals or successful entrepreneurs and TD earns a tonne from these financially sound customers without taking crazy amounts of risk.

Foolish bottom line

TD is going to keep churning a reliable total shareholder return of 7-10% for the next decade and beyond. Smart investors would do well to start a position today and use the power of monthly or quarterly top-ups to grow their position over time.

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