



## Should You Forget About GICs and Buy Bank of Montreal (TSX:BMO) Stock Instead?

### Description

When you put money in guaranteed investment certificates, or GICs, you're essentially lending money to the financial institution and getting interests in return. Currently, a one-year GIC yields about 2.5%.

If you're comfortable lending money to, say, a big bank like **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), you might as well invest in the bank for [greater income](#) and returns.

### Get more income from dividends

The yield of BMO stock is 4.1% as of writing, which earns you 1.6% extra (or 60% higher) in income!

Additionally, BMO stock pays eligible dividends, which are taxed at a lower rate than the interest income you earn from GICs.

The longer you have your money locked in a GIC, the bigger difference you'll notice in the income and returns you get. A five-year GIC offers a yield of about 2.75%. BMO's dividend yield earns you 1.35% extra (or roughly 50% higher) in income.

Having \$5,000 saved in a five-year GIC earns a total of \$687.50 in interest income. But \$5,000 invested in BMO stock earns about \$1,020 in dividend income over five years. This is already a conservative estimate, because BMO stock tends to increase its dividend over time.

In the past five years, BMO stock increased its dividend by 5.2% per year on average. If the bank maintains a 5% dividend-growth rate over the next five years, you'll earn \$1,127 in dividends — 10% more than if the bank's dividend remained constant. This will be roughly 64% greater than the income earned from a five-year GIC!

Better yet, you can also expect long-term price appreciation from BMO. For example, in the past five years, BMO stock delivered total returns of 45% — 22% came from the dividends and 78% came from price appreciation.

## BMO stock is a decent buy today

At about \$101 per share as of writing, BMO trades at roughly 10.7 times earnings, a small discount from its fair valuation. Therefore, investors can expect three- to five-year total returns of 6-12% per year, barring a market-wide correction, all the while [collecting passive income](#) equating to a yield of roughly 4%.

## When you should save in a GIC over investing in a bank stock

As good as I make investing in BMO stock sounds, there are situations in which you're better off putting your money in a GIC. If you know you'll need the money in the short term, say, a year later, for a down payment, buying a car, etc., then you should keep your money in a GIC instead of the stock market.

The simple reason is that stocks are volatile. While great stocks powered by good businesses like BMO go up over time, there are always macro or company-specific reasons that will cause stocks to tank, BMO stock included.

Stay hungry. Stay Foolish.

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1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

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**Date**

2025/08/01

**Date Created**

2019/11/15

**Author**

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