Canada Stock Market up on Solid Bank Revenue Growth

Description

Stock market investors may want to buy bank stocks in Canada on the Toronto Stock Exchange today after one of the nation's biggest banks reported positive revenue growth. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) reported stellar earnings on Tuesday, December 3, 2019, particularly in the U.S. banking business.

If you haven't purchased shares of the Bank of Montreal, now would be the perfect time to start tucking away your retirement savings in this bank stock. Shares of this stock have a secure capital gain and dividend history and promise even higher future returns. BMO shares opened down 2.58% this morning on the TSX, giving bargain hunters a chance to buy on the dip in price.

Even better: the bank announced another dividend increase this quarter, making existing Canadian shareholders very happy this holiday season. Loyal shareholders celebrated the $0.03-per-share quarterly dividend increase to $1.06 by wishing each other "Happy Holidays" on **Twitter**:

> $BMO dividend up $0.03 per share. Happy Holidays! https://t.co/tcp2eRo4Cq
>
> — Mark Seed (@myownadvisor) December 3, 2019

Canada's biggest banks, including BMO, have a lot going for them in 2020. There is a good reason for stock market investors in Canada to remain bullish on the "Big Six" Canadian bank stocks.

Lower taxes boosts income

Net income in the U.S. personal and consumer banking segment increased by $21 million or 5% from last year. Bank of Montreal credited favourable U.S. tax treatment in the prior year as the main driver of the robust revenue growth. The current U.S. president, Donald Trump, sponsored a signature bill called the *U.S. Tax Cuts & Jobs Act*, which cut corporate tax rates and boosted banking profits.

Canada's big banks at first criticized the contentious tax bill as uncompetitive for government revenue in Canada. **Toronto-Dominion Bank** and **CIBC** had concerns that Canada would attract fewer innovative and new corporations to the benefit of the United States. Luckily, higher bank profit margins in the U.S. at least partially offset detrimental impacts to the Canadian industry.

Higher dividends lift share prices

The dividend is now up 6% from last year and 3% from the prior quarter. Canadian shareholders can earn an annual tax-free interest of $4.24 per share on stock held in their Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP).

At the current price of $98.11, dividends alone yield shareholders 4.2% interest per year — 0.25% higher than the prime interest rate in Canada.

In the past five years, Bank of Montreal has yielded a 54.7% return to shareholders, including dividend payments. On average, investors earned an annual interest rate of 10.94% on the stock. Because this 202-year-old institution wields so much political power, your long-term retirement savings stand to benefit from similar returns in the next 30 years.

Foolish takeaway

The Canada Revenue Agency allows all eligible citizens to contribute up to $6,000 per year in a TFSA and 18% of their income to an RRSP, up to a limit of $27,230. If you are one of the 80% of Canadians who contributes less than their personal maximum into the available tax-free savings options, you may be eligible to benefit from even more tax savings in 2020.

There is a loophole in the maximum contribution limits. Any unused allowance in both the TFSA and RRSP in prior years can be carried forward to future years. Thus, if you have never contributed to a TFSA but were 18 years old and a resident of Canada in 2009, you can contribute up to $69,500 to a TFSA. Throw some of your contribution limits toward stock investments in the Bank of Montreal, and you will thank yourself in 30 years when you retire.

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Date
2025/08/19
Date Created
2019/12/03
Author
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