Market Crash: A Top Canadian Dividend Stock for Contrarian TFSA Investors

Description

The stock market correction is giving buy-and-hold Tax-Free Savings Account (TFSA) investors an opportunity to acquire top-quality Canadian stocks at attractive prices.

What's going on?

Investors are concerned that the coronavirus outbreak might trigger a global recession. This is driving funds out of stocks and into safe-haven assets, such as government debt and gold. Yields on U.S. government bonds are now at record lows.

Central banks are cutting interest rates to help offset the potential economic impact. The Bank of Canada recently lowered its target rates by 50 basis points to match a move made by the U.S. Federal Reserve, which makes borrowing cheaper for consumers and businesses.

Those with variable rate loans will see their payments drop, leaving more cash available to spend and support the economy.

A second shock is now hitting the market. Saudi Arabia and Russia failed to come to an agreement on the weekend to control oil output to keep prices stabilized. The price of WTI oil had fallen from US$63 per barrel in January to US$43 at the close of trading last week. At the time of writing, WTI oil is down to US$32 per barrel.

Canadian energy stocks are taking a beating and the sector's heavy weighting in the **TSX Index** is putting additional pressure on the Canadian market.

Amid the panic, contrarian investors are starting to see good deals emerge for a dividend-focused TFSA portfolio. Let's take a look at one top dividend stock that might be an interesting picks right now.

TD

Toronto-Dominion Bank (TSX:TD) (NYSE:TD) is Canada's second largest financial institution. The bank is best known for its Canadian personal banking, commercial banking, and wealth management operations, but TD is also a significant player in the retail banking sector in the United States.

The U.S. group provides a good hedge against trouble in the Canadian market and earnings can get a nice boost when the American dollar rises against the loonie.

On the downside, the drop interest rates in the United States through the second half of last year put pressure on net interest margins in the latest quarter — a trend that’s expected to continue after the recent rate cut by the Fed.

In Canada, TD has very limited direct exposure to the energy sector. As a result, the anticipated fallout from the plunge in oil prices shouldn’t impact TD in a meaningful way.

On the housing side, the drop in interest rates in Canada and plunging bond yields are giving TD an opportunity to offer homeowners cheap rates on mortgage renewals and lines of credit.

Falling mortgage rates will also help new home buyers enter the market. TD’s residential housing portfolio is large, so the rate cuts should reduce default threats in the event the economy hits a rough patch.

TD is a very profitable company. The bank earned $3 billion in adjusted net income on fiscal Q1 2020. The board just raised the dividend by 7% and TD remains well capitalized, with a CET1 ratio of 11.7%.

Should you buy TD?

The stock is trading at a very cheap multiple and investors who buy today can pick up a 5% dividend yield. Additional weakness could be on the way, but buy-and-hold income investors get paid well to wait for the volatility to settle down.

Based on historical results, buying TD during a market crash tends to deliver strong long-term returns.

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Date
2025/08/21
Date Created
2020/03/09
Author
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