



## TFSA Investors: Buy Canadian Banks Now, Get Filthy Rich Later

### Description

For Tax-Free Savings Account (TFSA) investors who've still yet to buy anything with their \$6,000 TFSA contribution, now is a golden opportunity to [bag the bargains](#) that have been scattered across the **TSX Index**. There are a tonne of great deals that are practically steals.

For those looking for stability and dividend assurance through these tough times, look no further than the Canadian banks, which sold off violently over the past few weeks.

The Canadian banks are facing headwinds that could rival those suffered during the Financial Crisis. Canada's banks were already in a bad spot before the pandemic began. They were at the receiving end of a vicious credit downturn that inspired many short-sellers to put them in their crosshairs.

The Canadian credit downturn made profitability tougher amid rising provisions for credit losses (PCLs), surging expenses, declining loans, and thinning net interest margins, among other pressures.

Still, the credit downturn was a cyclical, structural downturn, and the banks were well-capitalized enough to deal with the impact. But then came the one-two punch of the coronavirus pandemic and the collapse of OPEC+ that sent oil prices to even lower lows.

The pandemic is likely to bring us into a recession and US\$20-something oil spells disaster for the oil and gas (O&G) loan books of the big Canadian banks.

It's the perfect storm, just like the events that unfolded in 2007-08. Only this time, the Canadian banks took a one-two punch to the gut after they've already been rocked from the uppercut that was the Canadian credit downturn.

Many analysts are bearish on the banks as the pandemic has the potential to cause another financial crisis. The sheer bearishness on Canadian banks has arguably never been this high. But that's precisely why you should step in with a contrarian position now that price-to-earnings multiples are half (or in some cases, less than half) of where they usually are.

A storm of impaired loans is coming. The only question is whether the Canadian banks are going to be

hit harder than the 2008 Financial Crisis. In any case, many of the banks are already trading as though a severe and prolonged recession is a certainty.

With the right amount of fiscal stimulus, a disaster could be averted, and a recession could be far milder compared to 2008.

In any case, the dividends of the Canadian banks are as safe as they come.

**Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) nearly crashed 50% when I pounded the table on the stock just a few days ago. The dividend yield was flirting with the 8% mark, and I noted that the concerns over BMO's slightly higher O&G loan exposure relative to its peers were being blown out of proportion following oil's historic collapse.

BMO stock has since regained some ground, bouncing 24% in just two trading sessions amid a broader rebound in the TSX. Despite the sudden bounce, the stock is too cheap to ignore at this juncture. Analysts are just too pessimistic, with some seeing this 2020 meltdown as having the potential to be worse than 2008.

Even if the 2020 crash is harsher than witnessed in 2008, I'm still of the belief that the big Canadian banks will come roaring back when the time comes. The next credit cycle will follow this vicious downturn, the pandemic will eventually subside, oil prices could recover ground should the U.S. intervene, and a new bull market will ultimately come charging.

"Just look to 2009, and you'll see many bank stocks, including Bank of Montreal, doubling a year after forming a bottom." I said in a prior piece. "Once the initial wave of panic selling wears off, investors will see the swollen dividends of the banks as safe spots — and there will be an unprecedented rush back into the blue-chip dividend darlings as the next bull is born."

The Canadian banks are cheap, but they're cheap for a reason you could argue. There are just too many headwinds to count right now.

What you must not discount, however, is the resilience of the Canadian banks and their [ability to bounce back from even the worst crises](#).

Banks like BMO may not have bottomed yet, but in the grander scheme of things, they'll look far too cheap here, and their dividends, too good to pass up in a time where healthy balance sheets and dividend stability matter that much more.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks

## TICKERS GLOBAL

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

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