Bank Stocks: Is Now the Time To Buy?

Description

We're just about at the three-month mark of 2020 and we've seen the **S&P/TSX Composite Index** drop roughly 25% already. As countries continue to deal with the spreading of COVID19, the year very well may end up with a larger drop than just 25%.

During the financial crisis of 2007-2009, bank stocks were impacted dramatically in the stock market. Many industries took a large hit during that last recession, but banking was one of the industries hardest hit.

Even though bank stocks were among the hardest hit during the financial crisis, they have since proved to be great long-term investments. Both **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **TD Bank** (TSX:TD)(NYSE:TD) have significantly outperformed the Canadian market since the low of the financial crisis up.

Royal Bank of Canada

With a market cap of $115 billion, RBC is the largest bank in Canada. A major reason for RBC leading the banking industry is due to its diversity of business segments.

Rather than specialize in a few specific business segments, RBC claims a significant presence across the banking industry. The company operates in both personal and commercial banking, capital markets, wealth management, insurance, and treasury services.

In addition to offering diversity through banking segments, an investment in RBC provides shareholders diversity through geographic exposure as well.

While the Canadian market is by far the dominant driver of revenue, the U.S. market is growing into a significant part of the business. Canada accounts for roughly 60% of revenue, U.S. drives 25%, with the remaining 15% coming from international operations.

Royal Bank of Canada not only pays high-yielding dividend, but also reliable one.

The company has paid out a dividend to shareholders every year since 1870. The bank continued to pay dividends during the financial crisis, holding the payout constant throughout the recession.

The dividend pays shareholders $4.32 per share split four times throughout the year. At today's stock price, the yield is a very generous 5%.

Toronto-Dominion Bank

TD sits right behind RBC in terms of size with a market cap of $100 billion. While the Canadian bank may not be as diversified through business segments as RBC, there's plenty of growth still ahead for TD.

The bank serves both personal and commercial customers and has been investing aggressively in expanding its commercial product offering. The wealth and commercial management sector is an area that TD expects to see strong future growth in.

Similar to RBC, a substantial percentage of TD's revenue is driven from the U.S. TD has made sizeable investments in the U.S., mostly on the east coast to date, leaving plenty of room to grow in the west.

The bank boasts a Dividend Aristocrat status, paying a dividend to shareholders for more than 150 years.

The dividend pays $3.16 per share, which is equivalent to a yield of 5.25% at today's stock price. If an investor purchased $15,000 worth of TD stock today, they would be receiving a quarterly check for just under $200.

Foolish takeaway

Bank stocks likely still have not yet hit the bottom, with COVID19 showing no sign of slowing down in North America. As unemployment rates continue to rise due to the pandemic, banks are one industry that will likely see revenue impacted dramatically.

Bank stocks rebounded extremely well from the last recession, and there is no reason to think they won't do the same this time around.

For the long-term investor who can handle the expected volatility over the short-term, both of these bank stocks are in great positions to be excellent stocks for any Canadian portfolio.

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ndobroruka