



If You Don't Buy Royal Bank (TSX:RY) Stock Today, You'll Kick Yourself Later

Description

An important lesson for investors looking to bargain hunt during this market downturn is to stick to high-quality companies — those organizations that will easily survive this storm. **Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) isn't just the best bank in Canada; it's one of our nation's best stocks altogether.

I often remind investors that playing defense is equally as important as offense, perhaps even more so. Investing offense is fun. It's analyzing stocks for their upside potential. Investing defense — which is figuring out risk and making sure one bad decision doesn't impact your whole portfolio — isn't nearly as sexy. But it's especially important during times of crisis.

Let's take a closer look at Royal Bank stock to see what exactly makes this bank so special and why you'll be kicking yourself a few years down the road if you don't buy depressed shares today.

Why Royal Bank?

The Canadian banking sector is competitive, with five giant banks dominating the landscape. Royal Bank has consistently sat atop this pile, and the company has consistently been the largest company in Canada for decades now. It sometimes gets ousted from this lofty perch, [but usually not for long](#).

What is Royal Bank's special sauce that allows it to dominate the Canadian banking industry so consistently? For me, it simply comes down to the quality of management. No matter what Royal Bank touches, it turns to gold.

It has a leading market share in every banking category, ranging from mortgages to credit cards to its capital markets division. It also has a robust insurance business, creating a great opportunity for banking staff to cross-sell insurance products.

You don't get into such a great position without superb management.

Next, let's talk about the advantages of the Canadian banking system in general and how that benefits Royal Bank stock. Remember, all risky mortgages in Canada are secured by mortgage default

insurance, a product that's ultimately backed by the Government of Canada.

This certainly protects the sector from losses on its most important product. The lack of real competition among the largest banks sure helps, too, and government regulations ensure foreign banks can't easily enter Canada.

Consistent earnings from Royal Bank's Canadian operations have been put to work acquiring assets in both the Caribbean and the United States. Perhaps the company will use this downturn as an opportunity to acquire more assets. This diversification is making a real impact to the bottom line, with approximately 35% of earnings coming from outside Canada.

A compelling valuation

Simply put, Royal Bank stock is a screaming buy today because shares are down significantly. Yes, short-term earnings power will be weak, but investors should be confident of this being a temporary blip. The overall Canadian economy will recover. It's just a matter of time.

In 2019, Royal Bank earned \$8.75 per share. As I type this, shares trade hands at \$86.13 each, giving the stock a trailing P/E ratio of under 10 times. That's quite cheap for a company of Royal Bank's caliber.

Yes, I'm the first to admit 2020's earnings will be bad. There's no doubt about that. But this scenario has played out many times before. The company takes a hit on earnings and by 2021 it has largely recovered. By the time 2022 comes along, this will all be a distant memory.

The stock is also cheap when we look at the dividend yield. During normal times, Royal Bank stock was considered cheap when the dividend surpassed 4%. The current yield is just over 5%.

Finally, ignore the naysayers who are [worrying about bank dividends](#). These payouts are fine.

The bottom line on Royal Bank stock

Many investors follow a simple investing philosophy. They buy shares of great companies and then hold them for a very long time. This strategy usually produces pretty solid returns.

If you buy when these great companies are beaten up, like today, you'll likely add an extra boost to your total returns, something every portfolio could use.

It's simple. Just buy Royal Bank stock today before it heads higher. I'll bet your future self will be very happy with this decision.

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