



## TFSA Income Investors: Is Bank of Montreal (TSX:BMO) Stock a Buy for the 6% Dividend Yield?

### Description

Top Canadian dividend stocks now offer Tax-Free Savings Account ([TFSA](#)) investors attractive yields for a self-directed income fund. In fact, it's entirely possible to build a portfolio with a reliable 6% yield.

Buying stocks during volatile times takes courage. Sometimes cheap stocks get a lot cheaper before they recover and you have to be comfortable riding out the turbulence. That said, top-quality dividend stocks tend to provide investors with attractive long-term returns.

Let's take a look at one unloved Canadian [dividend stock](#) that might be an interesting pick for a dividend-focused TFSA today.

### Bank of Montreal

Bank of Montreal paid its first stock dividend in 1829 and has given investors a piece of the profits every year since. That's nearly two centuries of steady dividend payments!

With a market capitalization of \$43 billion, Bank of Montreal is number four among the five largest Canadian banks. Investors often skip the company when searching for a bank stock to add to their portfolios, but Bank of Montreal likely deserves a closer look.

Why?

The bank has a balanced revenue stream coming from personal and commercial banking, wealth management, and capital markets activities. The large U.S. presence includes roughly 500 branches, primarily located in the Mid-west. Once the economy begins to improve, the bank should see solid performances from all areas of its operations.

The threat of a meltdown in the housing market is a concern for the Canadian banks. Statistics Canada says unemployment hit 13% in April. Economists estimate actual unemployment is closer to 20% right now. If jobs don't come back in a meaningful way in the next six months, loan defaults will start to rise.

Bank of Montreal had \$113 billion in Canadian residential mortgages on the books at the end of January. That sounds like a large amount, but it's actually quite small relative to the company's size. **CIBC**, which is actually a smaller bank by market capitalization, has a mortgage portfolio of about \$220 billion.

Bank of Montreal finished fiscal Q1 2020 with a CET1 ratio of 11.4%. This is a strong capital position, meaning the bank entered the current crisis in decent shape.

One other area to watch is the energy portfolio. Oil companies are going through a rough period and Bank of Montreal finished Q1 with \$12.9 billion in exposure to the sector, representing 3% of the total loan portfolio.

More than half of the oil and gas loans are located in the United States. It's no secret that American oil companies are getting hammered by low oil prices, and provisions for losses on these loans are likely headed higher.

## Should you buy?

The stock is down to \$67 from \$100 in February. While investors should brace for ugly results in the next few quarters, the anticipated damage is probably already reflected in the share price.

The dividend should be safe and investors have solid upside potential in the stock price once the economy begins to recover. Bank of Montreal currently offers a 6.3% dividend yield.

Income investors might want to start nibbling and look to add to the position on any additional downside. Five years from now, the stock price should be much higher than it is today.

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