TFSA Investors: This Bank Stock Just Slashed Its Dividend by 40%

Description

Investing in a top bank stock like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is normally a safe decision. The company's got a solid track record not only for paying dividends, but also for increasing them over the years.

It's also likely to increase in value over the years. But the problem is when the economy falls on hard times, as it has during the coronavirus pandemic.

With some businesses not operating as a result of lockdowns, we're seeing fewer loans and less banking activity, which translates into less money for the bank.

It also increases the risk that banks like TD face. When the top bank released its quarterly results last month, TD's reported profits were less than half of what they were in the prior-year period. The company increased its provision for credit losses to $3.2 billion.

A year ago, that number was just $633 million, which is par for the course for many bank stocks as they prepare for more turbulent times ahead due to COVID-19.

The good news for TD shareholders is that the bank's dividend remains intact and that they're still getting $0.79 every quarter.

Not all bank investors are as lucky

Unfortunately, not all banks have the resources and the ability to continue paying dividends during the pandemic. **Laurentian Bank** (TSX:LB) slashed its dividend payments in May by a whopping 40% as its profits fell by 79%.

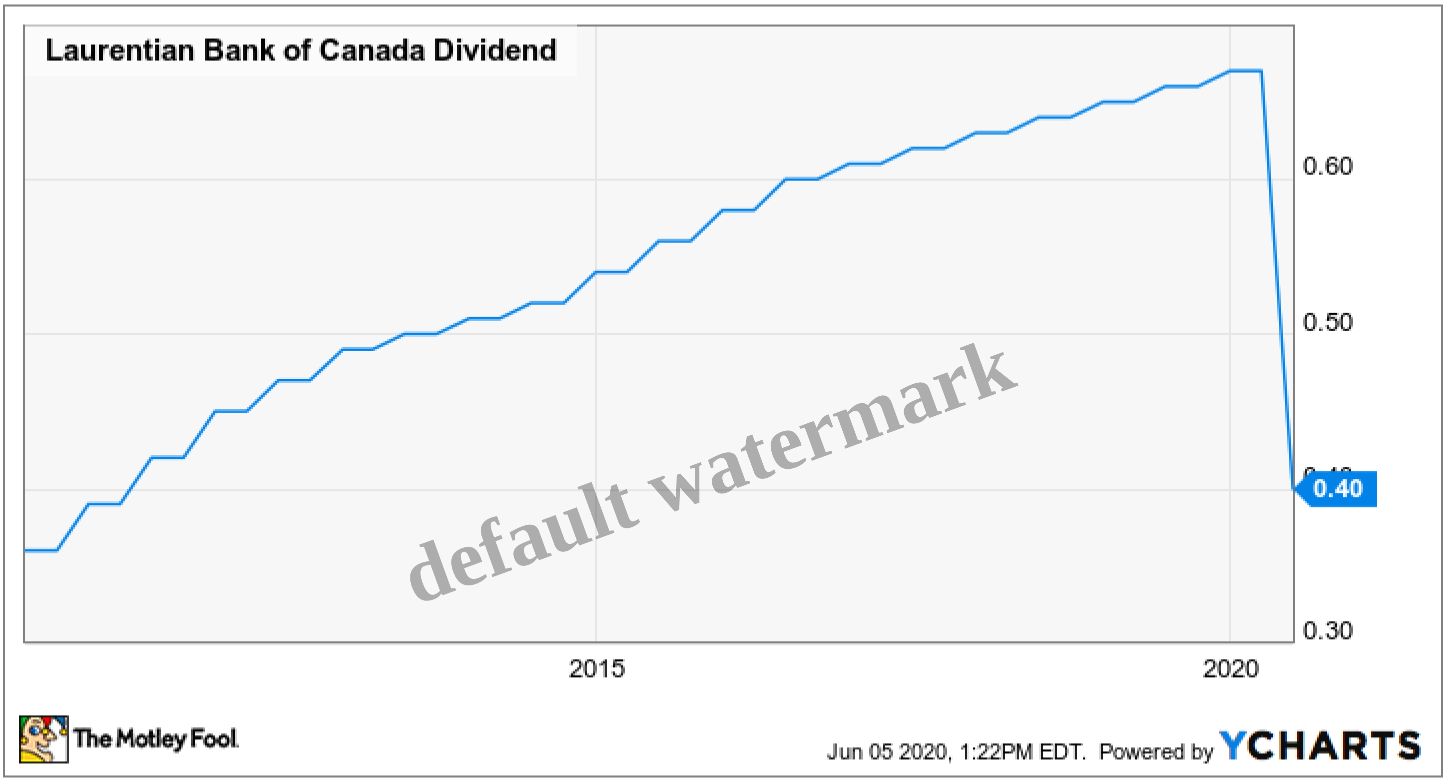
It's the first time that a major Canadian bank reduced its dividend since 1992. At that time, National Bank shareholders saw their dividend income drop.

Laurentian was previously paying its shareholders a quarterly dividend of $0.67. At a price of around

$31, that would represent a dividend yield of around 8.6% today — an exceptional payout for a bank. And it would likely be hard for investors to resist given that, well, it's rare for banks to cut their payouts.

But what the COVID-19 pandemic is showing is that this isn't an ordinary situation and even rare events like dividend cuts by banks can happen.

Moving forward, Laurentian's paying a dividend of $0.40 every quarter for a yield of around 5.1%. While that's still a [hefty dividend,](#) the bad news for long-term investors is that erases years of dividend increases:



LB Dividend data by YCharts

What should investors do?

There's no sugar-coating this: It's a gut punch for Laurentian investors. Even if the bank does recover and decides to slowly start raising its payouts again, it would take a 67.5% increase for investors to be back to earning $0.67 per share every quarter.

Laurentian management has likely considered how much it may increase its dividend by when the economy recovers. And it's hard to imagine it's budgeting for such a mammoth increase a year or two from now.

It took nearly a decade for Laurentian's payouts to rise from $0.39 back in 2011 to where they were before the company announced this cut.

Rather than hanging on and waiting for the dividend to revert to its previous highs (assuming that happens at all), investors of Laurentian may be better off looking at other dividend stocks to invest in, perhaps one of the Big Five banks like TD that should provide investors with a lot more stability.

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