



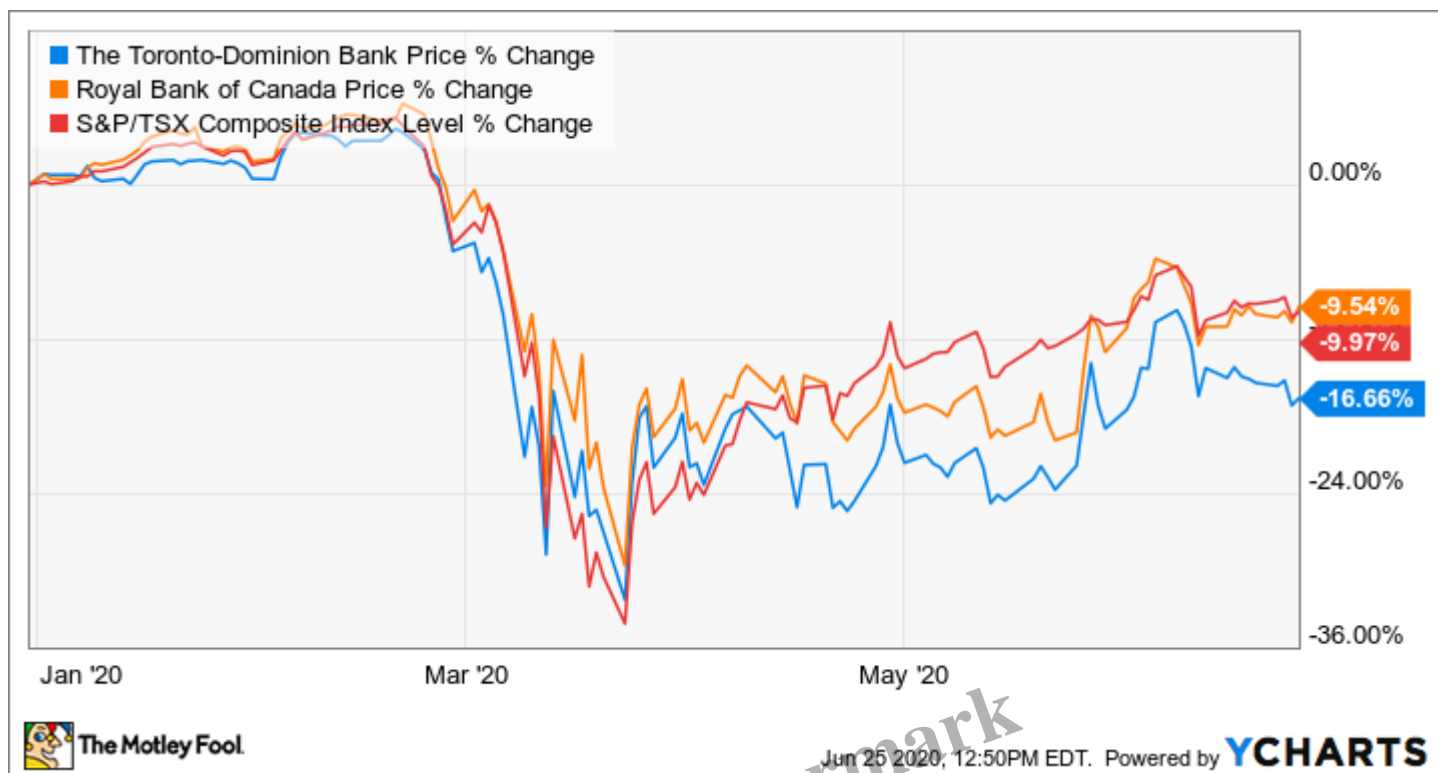
2 Hot Bank Stocks to Buy in July

Description

Bank stocks are the perfect investment right now for any Tax-Free Savings Account (TFSA) or RRSP. Increased risk of bankruptcy and loan defaults during the COVID-19 crisis has caused some volatility in financial sector stocks. Nonetheless, Canadian banks are some of the strongest and well-capitalized companies in the world.

When it comes to publicly-traded stocks on the **Toronto Stock Exchange**, banks like **Toronto-Dominion Bank** ([TSX:RY](#))([NYSE:TD](#)) and the **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) are top dividend stocks for July. Every investment carries some risk. That is why a long-term mindset sets aspiring Canadian retirees up for success in the stock market.

Bank stocks may go down or up during the next year, but over the course of five years, if history is any indication, the market value of these assets will only increase. Right now, they are selling for a discount relative to the start of the year.



Shareholders are selling Toronto-Dominion Bank for 16.66% less than at the start of 2020. Similarly, Royal Bank of Canada is trading for 9.54% lower. By comparison, the **S&P/TSX Composite Index** level percent change is 9.97%.

TD Bank stock

In Toronto-Dominion Bank's earnings press release last month, the firm commented on the impact of reduced commissions and fees at TD Ameritrade in its U.S. Retail segment.

"TD Ameritrade contributed \$234 million (US\$174 million) in earnings to the segment, a decrease of 9% (11% in U.S. dollars) compared to the same quarter last year, primarily reflecting reduced trading commissions and higher operating expenses, partially offset by increased trading volumes."

In November 2019, Charles Schwab [cut fees to \\$0](#) for most equities trades. Competitors such as TD Ameritrade and Ally Bank quickly followed suit. Subsequently, Charles Schwab offered to acquire TD Ameritrade. Charles Schwab is already a major shareholder of the firm.

Toronto-Dominion Bank expects to close this sale at the end of the year. It's possible that the losses from the U.S. retail division and the pending sale of this asset are driving down the market value for TD Bank stock.

Royal Bank of Canada

Royal Bank of Canada reported a \$426 million increase in credit losses due to the COVID-19 pandemic last month in its earnings press release.

“The unprecedented challenges brought on by the COVID-19 pandemic led to increased provision for credit losses of \$2,830 million, up \$2,404 million from last year.”

The bank is also working diligently to increase reserves in light of the economic impacts of COVID-19. The bank has raised its total provision for credit losses (PCL) ratio on loans to 165 basis points (bps), up 139 bps from last quarter.

The PCL ratio varies with default risk on loans and represents an amount of money the bank sets aside to cover losses from lending activities. This ratio is essentially a tool that the bank uses to guard against insolvency.

Should you buy these hot bank stocks?

Banks will most certainly lose some money on loans during this economic crisis. That aside, this health emergency will not last forever. When the economy does return to normal, credit losses will fall back to normal levels, as will the PCL ratio.

While there may be some short- to medium-term volatility in the financial sector, Canadian investors really can't do much better than bank stocks. As far as top income stocks go, it doesn't get much safer than the politically powerful banking sector.

The dividend yield on Toronto-Dominion Bank is over 5% at the current share price. Royal Bank of Canada is slightly lower, issuing dividends amounting to a 4.65% yield.

What's more, these bank stocks have a stellar reputation for delivering on dividends even during an economic crisis.

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1. Bank Stocks
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