Bank of Montreal (TSX:BMO) Is a Top Dividend Aristocrat to Buy Right Now

Description

The **TSX Index** can't seem to catch a break. The Canadian index has trailed U.S. indices for quite some time, and the coronavirus crisis just widened the performance gap that much farther. The TSX Index is not only heavy in sectors that have been feeling the most pain from the COVID-19 crisis (energy and financials), but it's also light on pandemic-resilient tech companies that have been leading the U.S. indices higher in recent months.

Finding value in sectors that others are shunning

The financials, like energy stocks, are viewed as uninvestable by many wary investors amid this pandemic. The banks tend to get left holding the bag in crises when loanees cannot meet their debt obligations. Insurers also take huge hits to the chin, as prospective consumers slash "wants" in favour of "needs" amid drastic rises in unemployment. Although insurance products are technically "needs" for certain Canadians, they've seldom viewed that way when it comes time to tighten the belt amid unprecedented spikes in unemployment.

In the face of a second wave of COVID-19 cases, which could have the potential to be far worse than the first wave suffered back in March-May, the financials could be at risk of falling under an unfathomable amount of pressure. Some Canadian financial firms could be pushed to their breaking point, and we could witness significant dividend cuts from various financial firms, including the likes of a big bank.

Valuations across COVID-hit financials are absurdly low. Although some remain too difficult to evaluate with any degree of precision, I think it makes sense to place bets on various financials for a shot at outsized gains in a recovery from this crisis. The pandemic could get way worse in the fourth quarter of 2020, but it won't last forever, even though some financials may be priced as though this pandemic could drag on indefinitely.

Bank of Montreal is severely oversold, even given the gloomy

outlook

While I wouldn’t recommend going all-in on battered financials here, I would urge investors to consider initiating a contrarian position as a part of a barbell portfolio that balances the risks brought forth by the COVID-19 pandemic.

Consider **Bank of Montreal** (TSX:BMO)(NYSE:BMO), a top bank that strikes me as being too cheap to ignore, even though we’re likely nowhere close to being out of the woods with this pandemic.

This isn’t the first crisis for the Dividend Aristocrat

BMO is a Dividend Aristocrat that’s less than a decade away from seeing its dividend hit the 200-year-old mark. As one of the oldest businesses out there, BMO has been through more than its fair share of crises and black swan events. While the current crisis is unprecedented with no historic comparables, I think BMO is far better positioned to survive this pandemic than most would give it credit for.

The bank has a greater-than-average exposure to oil and gas loans, making it among the most vulnerable of the Big Six to a severe worsening of this crisis. That said, BMO trades at a slight discount to its book value, and its capital ratio remains robust following its latest quarter that revealed weak but better-than-feared results.

If this pandemic worsens, unemployment could rocket, and BMO may face steepening provisions for credit losses (PCLs). Still, with less exposure to the frothy Canadian housing market, which could be on the verge of collapse in a drastic worsening of this crisis, I think BMO isn’t the riskiest of the Big Six to own, especially at today’s valuations.

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Author
joefrenette