Top Dividend Aristocrat: Here's the Best Bank for Your Buck in 2021

Description

The stock market rally has not looked back after surging out of the depths of March 2020. For passive-income investors who didn't buy anything last year, it can be discouraging to witness the swollen yields compress so rapidly.

Fortunately, many high-yield securities are still battered and bruised, with yields that skew to the higher end of the historical range. Think REITs, banks, insurers, and energy firms that still face COVID-19 headwinds. In this piece, we'll have a look at the Canadian banks, which, while not nearly as cheap as they were several months ago, are still attractively valued for long-term investors who want to pay less for more yield.

Dividend Aristocrat: BMO is my 2021 best bank for your buck

At any given instance, there's always a best bank for your buck. And as we head in the latter part of 2021, I think **Bank of Montreal** (TSX:BMO)(NYSE:BMO) has the best value proposition for both value and passive-income investors. BMO stock took a left hook to the chin back in February and March thanks in part to its greater exposure to oil and gas (O&G) loans. The COVID-19 crisis decimated the energy patch. Oil prices briefly went negative for a while, and nobody wanted anything to do with fossil fuels amid the profound uncertainties.

With oil prices back on the mend, BMO's loan book doesn't seem all that bad as it did for most of last year. Who would have thought oil would have made an abrupt recovery and that the loonie would make a run for US$0.79? Of course, hindsight is 2020. With the macro picture showing signs of modest improvement, I'd look to BMO to make a run for its all-time highs now that there's a prettier backdrop in 2021.

Bank of Montreal stock: Leading the downward charge amid COVID-19

BMO took a bigger hit than some of its Big Six peers, not because management got greedy and lacked due diligence with past loans, but because it just happened that BMO was among the most ill-equipped to deal with a pandemic.

Pandemics decimated some industries while sparing (or acting as a tailwind) for others. BMO skated offside, and it didn't have the agility to pivot to get out of the way of the damage that was to come. Through the eyes of investors who didn't discount BMO's multi-decade track record of navigating through crises, the Dividend Aristocrat was always destined to make a big comeback. And if you parted with history and bought as others sold, you locked in a huge yield alongside rapid capital gains.

The market crash has now come and gone. But I still see substantial value in shares of BMO at $99 and charge. Moreover, with the pandemic's end in sight, I find BMO to be a far less risky proposition than it was earlier last year when it was uncertain when we'd have a safe and effective vaccine discovery.

Sure, shares of the Dividend Aristocrat are up 60% since March, but I think the risk/reward scenario may even be better here, given the recovery trajectory in late 2021. At the time of writing, BMO stock trades at 1.2 times book value, with a 4.3% yield. I think BMO will put the days of steep provisioning behind it this year, as it looks to grow its earnings at a potentially quicker rate than most expect.

Foolish takeaway on BMO stock

BMO stock is a great buy for passive-income investors here. The Canadian Dividend Aristocrat not as cheap as it was last year, but it's also not nearly as risky.

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Author
joefrenette