This 3.66% Dividend Stock Is a No-Brainer Buy

Description

Why do people invest in dividend stocks? Generally, the objective is to create a steady income stream without touching the capital. Retirees, mostly, need to own them to have retirement income besides the pensions. If you were to save money but keep it idle, you might not have enough to supplement your Canada Pension Plan (CPP) and Old Age Security (OAS).

Understand too that mature companies are usually dividend payers. However, a stock that pays higher dividend yield isn't automatically an attractive investment. Sometimes the yield is high because the share price is declining. Other times, the yield drops when the stock price rises.

The biggest drawback is when a company slashes or stops dividend payments. It happened in 2020 when several dividend payers reduced or discontinued the payouts. The purpose was to preserve cash and protect the balance sheet. Hence, it pays to look at other factors apart from the dividend yield.

No-brainer buy

In the **Toronto Stock Exchange**, sectors such as energy, financial, utilities, and real estate are where dividend investors converge. While bonds are safer assets, they can't produce as much cash flows as dividend stocks. Thus, you take certain risks in the stock market.

Furthermore, long-term investors will tell you that dividends magnify returns instead of slowing them down. For this reason, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) stands out as a no-brainer buy. The fourth-largest bank in Canada doesn't pay the highest dividend, yet most retirees have it as their core holding.

The Big Five banks in Canada have been paying dividends for more than a century. However, BMO started it all in 1829. Most income investors describe the bank stock as the most investor-friendly stock because of its unmatched dividend track record. Eight years from now, BMO's practice of paying dividends will have been going on for 200 years.

Power of compounding

Dividend investors benefit from the power of compound interest. For illustration purposes, if you invest $50,000, and BMO maintains the dividend yield, the money will swell to $1.8 million in 100 years. The point here is that the pioneer dividend payer can help you amass a fortune, despite its lower-than-average yield.

Invest $340,150 in BMO today, and you'll be a millionaire in 30 years. The trick is to keep reinvesting the dividends as you receive them. By the time you retire, you'll have a pension-like income to supplement your guaranteed CPP and OAS retirement benefits.

Resilient forever

Do investors pick BMO only because of its dividend track record? I'm afraid not. The unbeatable feat lends confidence, but the bank's performance is still the compelling reason. BMO endured the severest recessions or economic downturns in history, including two world wars. An institution with a mediocre pedigree would have withered and faded from the scene.

In Q1 fiscal 2021 (quarter ended January 31, 2021), BMO reported a 27% increase in net income versus Q1 fiscal 2020. It seems the bank is over the hump, as the provision for credit losses dropped from $349 million to $156 million. Darryl White, CEO of BMO Financial Group, said the bank would continue to build on clear and consistent operating momentum following the 6% revenue growth.

No contest

Would-be investors must choose between a high yield or peace of mind. BMO's diversified and resilient business model should win out in the end.

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