



## TFSA Pension: 1 Top Canadian Dividend Stock Now on Sale

### Description

The correction in the **TSX Index** is giving retirees and other TFSA investors seeking passive income and total returns a chance to buy top [TSX](#) stocks at [undervalued](#) prices for a self-directed pension.

### Bank of Montreal

**Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) paid its first dividend in 1829, and investors have received a piece of the profits every year since that time. This is a great track record when you consider all the economic disasters that have occurred over the past two centuries.

Bank of Montreal continues to reward its shareholders, even in the current pandemic era. The board increased the dividend by 25% late last year and hiked the payout by another 4.5% when the bank reported fiscal Q2 2022 results. This would suggest the management team is confident the bank will continue to grow revenue and profits in the next few years, despite the economic headwinds.

### Recession risks?

Investors dumped bank stocks in recent months amid rising fears that a recession will drive down revenue and profit growth. High inflation is forcing households to spend more on food and gas. This will drain savings or eat up extra cash that might have been used to invest for retirement. The rate of inflation has probably peaked, but prices could continue to climb.

The Bank of Canada and the U.S. Federal Reserve are increasing interest rates to cool off a hot economy and hopefully bring inflation back down to their target rates of 2%. June year-over-year inflation topped 9% in the United States and 8% in Canada.

A recession is probably on the way, even without the central bank efforts. Rising interest rates will speed up the downturn and potentially make a recession deeper and longer lasting than anticipated. Highly leveraged borrowers who are already struggling with high prices will be in a difficult spot as loan and mortgage costs rise. Defaults are expected to increase, and that could push up loan losses at the

banks at the same time that revenues slide.

## Opportunities

Challenges exist, but Bank of Montreal is in a good position to ride out some tough times.

The bank has a strong capital position and is in the process of buying **Bank of the West** for US\$16.3 billion. This deal will add more than 500 branches to BMO Harris Bank, the U.S. subsidiary, and give Bank of Montreal a strong presence in the California market. The state of California has an economy estimated at US\$3.4 trillion (2021), making it the largest in the United States and, if it were a country, ranked as number five in the world.

Bank of Montreal should see solid long-term revenue growth from the U.S. operations. The expansion of the American business helps diversify the overall revenue stream, offsetting some risks in Canada. In the near term, higher interest rates tend to boost net interest margins, so there are revenue gains in this environment that could counter a jump in loan losses.

Bank of Montreal now trades near \$126 per share compared to the 2022 high above \$154. The current price is still well above the 2020 lows, but the selloff this year now appears overdone, even considering the economic outlook for the next 12-24 months.

## The bottom line on Bank of Montreal stock

Bank of Montreal offers a generous 4.4% dividend yield today, so new investors get paid well to wait for bank stocks to rebound. If you have some cash to put to work in a TFSA focused on passive income and total returns, this stock deserves to be on your radar.

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2. Investing

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