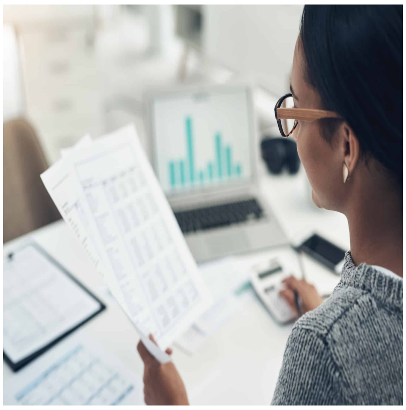

RRSP Wealth: 1 Top TSX Dividend Stock to Buy on the Pullback and Hold for Decades

Description

Buying top TSX dividend stocks during a market correction takes courage, but the contrarian investing strategy can result in attractive total returns over the long haul for Registered Retirement Savings Plan (RRSP) investors who have the patience to ride out the downturns.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) has a current market capitalization of $85.5 billion. This makes it the fourth-largest bank in Canada. Investors often skip BMO stock in favour of its larger peers, but that might be a mistake given the strong dividend increases over the past year and the potential growth opportunities in the American operations.

Bank of Montreal raised the dividend by 25% late last year and bumped up the payout by another 4.5% when the bank reported fiscal Q2 2022 results. This is the largest dividend increase among the big Canadian banks since the government ended the pandemic ban on dividend hikes near the end of 2021.

All of the Canadian banks built up large cash reserves over the past two years to cover potential loan losses. Aggressive government aid for businesses and households helped avoid a wave of bankruptcies and the banks now have significant excess cash to deploy.

Bank of Montreal is using its war chest to expand its presence south of the border with a deal to buy **Bank of the West** for US$ 16.4 billion. The acquisition will expand the BMO Harris Bank operations in the United States by more than 500 branches and will position Bank of Montreal to take advantage of growth opportunities in California. Bank of the West gets 70% of its deposits from clients in the state.

Risks?

Bank of Montreal trades near $127 per share at the time of writing compared to more than $154 earlier this year. The drop in the share price has occurred as part of the broad-based selloff in bank stocks due to growing recession fears. Investors are concerned that high inflation and rising interest rates will hammer households to the point where people will stop spending money on non-essential goods and services. That could lead to layoffs as the economy slows. If things get really bad and unemployment jumps considerably, there could be a crash in the housing market as owners struggle to cover increases in mortgage costs.

Headwinds are on the way, but most economists expect a mild and short recession, if one even occurs. Even in the event of a deeper or longer downturn, Bank of Montreal has the capital strength to ride out turbulent times. The bank's relative exposure to the Canadian residential housing market is smaller than some of its peers and the expansion of the American business will further balance out the revenue stream.

Time to by BMO stock?

The stock looks undervalued today and offers a 4.4% dividend yield. Bank of Montreal has paid a dividend every year since 1829, and long-term investors have enjoyed strong total returns. A $10,000 investment in BMO stock 25 years ago would be worth more than $115,000 today with the dividends reinvested.

If you have some cash to put to work in a self-directed RRSP, this stock deserves to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/08/21
Date Created
2022/08/04
Author
aswalker