



2 Big Bank Stocks to Own for Lifelong Income

Description

Apart from understanding the inherent risks when investing in stocks, it would help first-time investors to know how the **S&P/TSX Composite Index** is weighted. The energy sector (+33.76%) is the top performer thus far in 2022 but is only second in terms of percentage weight.

The financial sector, where Canada's largest banks belong, represents 31.7% of the index compared to energy's 19%. People around the world acknowledge that the country's banking industry is the most vibrant.

Also, investment-wise, the Big Five banks are bedrocks of stability and reliable sources of wealth for investors, both new and old. All these giant financial institutions have paid dividends for more than a century.

For these reasons, the **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) are highly recommended [stocks for beginners](#). The former is the largest lender, while the latter is TSX's dividend pioneer. RBC's market capitalization stands at \$177.32 billion and BMO's dividend track record runs 193 years.

Diversified business model

RBC has an equally impressive dividend track record of 152 years. The bank isn't immune to market volatility but has risen higher after every deep correction. It currently trades at \$124.60 per share, up 245% from \$36.10 during the 2008 financial crisis.

Despite the challenging environment, RBC's net income in Q2 fiscal 2022 (three months ended April 30, 2022) rose 6% year-over-year to \$4.3 billion versus Q2 fiscal 2021. Growth was strongest in the personal and commercial banking segments (17%). The wealth management and insurance divisions reported identical 10% increases.

Dave McKay, RBC's president and CEO, credits the diversified business model, judicious risk and capital management, and strategic investments for the strong quarterly results. Because of the better-

than-expected earnings, management raised its dividends by 7%. This was a follow-on to the 11% hike on December 1, 2021.

RBC now pays a 4.05% dividend after the twin hikes. Assuming the yield remains constant, a \$25,000 investment will generate \$253.13 in perpetual quarterly income.

Time-tested bank

BMO has been through the worst economic times, including two World Wars and the Great Depression. The Canadian bank is skating through the recession risk by posting its eighth consecutive quarter of higher earnings growth in Q2 2022, with net income jumping 258.8% year-over-year to \$3.7 billion, also driven by its personal and commercial banking business.

Canada's oldest bank has the distinction of starting the practice of sharing a portion of profits with shareholders through dividend payments. The first payment was made in 1829, and today, the dividend offers an attractive 4.34% dividend.

In late 2021, the \$86.17 billion dividend pioneer joined the dividend parade of Big Banks. BMO hiked dividends by 25%, the highest percentage hike in the select group. Would-be investors shouldn't worry about the safety of dividends as the current payout ratio is a low 26.23%.

Massive growth is on the horizon as BMO, through BMO Harris Bank, prepares to take over the Bank of the West in the United States by year-end 2022. Expansion is also ongoing in other parts of the world. The bank is now a registered Securities Licensed company in Japan, an active participant in Canadian bonds. BMO sees growth opportunities in the third-largest economy in the world.

Staple holdings

RBC and BMO are solid investment choices and staple holdings in any stock portfolio. The best part is that the more shares you accumulate, the more you can increase your income for life.

CATEGORY

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