5 Reasons to Buy Toronto-Dominion Bank

Description

Toronto-Dominion Bank (TSX: TD)(NYSE: TD) is not only one of Canada's largest banks, but also one of Canada's most admired companies. It's often one of the largest holdings in professionally managed Canadian equity portfolios.

There are plenty of reasons for you to buy some of its shares as well. Below are the top five.

1. A strong track record

The last year in which Toronto-Dominion Bank truly let its shareholders down was 2002. In that year, technology-related loans came back to haunt the bank after the tech bubble burst.

Since then, it has done a fantastic job growing earnings without taking on too much risk. For example, the bank famously sidestepped the subprime market in the United States, right before the bottom fell out.

As a result, its shares have returned an average of 12.2% annually over the past decade, well ahead of its peer average.

2. A leading franchise in Canada

In banking, it's very advantageous to be a market leader for two reasons. Firstly, Canadians are much more loyal to the bank they use than in years past, meaning that leads are generally safer. Secondly, banking has a lot of fixed costs — technology and regulatory costs alone can be a massive burden. Being bigger makes these costs easier to absorb.

Toronto-Dominion has one of Canada's leading retail banking franchises, with nearly 1,200 branches across the country. As a result, the bank competes for the lead in many products. Its profitability is sky high; just last quarter, return on equity was once again over 40% in Canada. With numbers like these, it has plenty of muscle and flexibility when competing for Canadian wallets.

3. The right culture

For the ninth year in a row, it ranked No. 1 among Canada's big five banks for customer satisfaction in a study by J.D. Power and Associates. With a streak that long, its success dealing with customers is no fluke.

It was the first bank to open branches on Sundays, and has followed that action with other customer-first moves. Most recently, it converted one of its ATMs into a "thank you machine" that handed out prizes such as airplane tickets and VIP Blue Jays experiences to customers. The bank is also repeatedly cited as one of the best places in Canada to work.

While it's not easy to measure the financial impact of its culture, there's no doubt that the bank's attitude makes its future more secure.

4. Low-risk activities

The bank's specialty is in retail banking, which makes it much less risky than its rivals.

For example, other big five banks place a bigger emphasis on capital markets, a business with less transparency and a potential for big losses. Investors have seen how this can turn out when the market goes against you.

5. Growth in the United States

Finally, it should be noted that Toronto-Dominion Bank has had mixed results in the United States so far. Acquisitions have often been expensive. The financial crisis didn't help, and low interest rates have put a damper on profitability.

However, with the U.S. recovery progressing steadily and interest rates set to rise eventually, profitability in the United States should eventually improve. All shareholders need is a little patience.

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Author
bensinclair