2 Simple Reasons Professional Money Managers Love Toronto-Dominion Bank

Description

If you look at the holdings of many Canadian equity funds, you'll see **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) at or near the top of the list.

Why is this the case? Below we'll take a look at two simple reasons.

1. The Canadian banking franchise

In banking, it helps to be big. Fixed costs, such as regulatory and technological expenses, can be through the roof, and bigger banks are better able to absorb these burdens. And in Canada, TD has one of the largest retail banking networks, with 1,200 branches. As a result, it is the market leader in many categories, including personal deposits, credit cards, and mobile banking. Even more importantly, TD's Canadian banking division is extremely profitable, with a return on equity exceeding 40%.

And these numbers should persist for a long time. At least one study has shown that Canadians are much more loyal to their bank than in years past, with less than 10% looking to switch. And that number is likely even lower at TD, where the bank consistently wins awards for customer satisfaction. Just last week TD finished first for Customer Service Excellence in the Ipsos Reid survey for the tenth year in a row.

So shareholders should feel very secure with TD's Canadian banking business, knowing that the profits will keep rolling in for many years to come.

2. A culture of risk management

Back in 2002, TD had an awful year. The bank had gotten caught up in the technology bubble, and suffered $2.9 billion in credit losses when the bubble burst. After that year, TD dedicated itself to improving risk management practices, and the results have been extraordinary.

The most notable example occurred in the lead-up to the global financial crisis. Back in 2002, TD was one of the top 10 players in structured products. But the bank slowly unwound the business under then-CEO Ed Clark. As he put it, "I discovered either I couldn't understand them, which was scary, or I could, and it was obvious they'd blow up." As a result, TD escaped the crisis relatively unscathed, something that would not have happened otherwise.

Even with Mr. Clark retiring this year, it is clear that TD continues to place great emphasis on risk management. This is very appealing to professional money managers, who are always looking for ways to avoid getting fired. And despite a 28% share price surge over the past year, TD remains a great option for individuals' portfolios too.

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