

2 Simple Reasons to Prefer Toronto-Dominion Bank Over Bank of Montreal

Description

Among Canada's Big 5 banks, only two are aggressively pushing into the United States: **Toronto-Dominion Bank** ([TSX: TD](#))([NYSE: TD](#)) and **Bank of Montreal** ([TSX: BMO](#))([NYSE: BMO](#)). So they can be a great way to bet on a U.S. recovery. Of the two, however, TD is likely the better bet, and below we take a look at two reasons why.

1. The Canadian operations

In banking, size matters, especially these days. Fixed costs have become so high, especially with increased regulatory requirements, and larger banks are more easily able to absorb them. There is no better example than TD and BMO in Canada.

Across the country, TD is bigger than BMO in practically every measure. TD has 30% more branches, 75% more employees, and 85% more loans. So who do you think is more profitable? Well, last year TD reported a return on equity of 46.8% in Canada, with profit of nearly \$130,000 per employee. Expenses totaled 46.5% of revenue. Meanwhile, BMO earned \$116,000 per employee, and expenses totaled 51.3% of revenue. And the company didn't even report a return on equity number.

Furthermore, research has shown that Canadians have become increasingly loyal to their bank. So TD's lead over BMO should be safe, especially since TD consistently scores tops among the Big 5 for customer satisfaction. So TD shareholders should feel fairly secure.

2. The track record

Over the past 10 years, TD shares have earned nearly 12% per year. Meanwhile, BMO shares have earned 7.5% per year. What explains this difference?

One area of outperformance has been in risk management. This is a big emphasis at TD, and the best example occurred during the financial crisis, when the bank was prudent enough to avoid the subprime market. Meanwhile, BMO got caught up in the mess, and even had to issue new shares in late 2008 at a depressed stock price.

TD has also shown more discipline than BMO. For example, BMO was the first bank to offer 2.99% mortgages with five-year terms. The move helped the bank nab some market share in the short term, but it also depressed profitability for the entire industry. Worst of all, it drew the ire of then-Finance Minister Jim Flaherty, who was trying to cool down Canada's skyrocketing housing market.

So looking ahead, TD shareholders can feel perfectly confident in the company's management team, even though there is an upcoming CEO transition. Meanwhile, the future is more uncertain over at BMO. If you're trying to decide between the two banks, the choice should be clear.

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1. NYSE:BMO (Bank of Montreal)
2. NYSE:TD (The Toronto-Dominion Bank)
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