One Simple Reason to Anchor Your Portfolio With Toronto-Dominion Bank

Description

When building a portfolio, many investors like to choose one of the big five Canadian banks as the largest holding. This includes professionals; you'll see one of the big banks as the largest holding in numerous Canadian mutual funds.

This makes sense. Canada's biggest banks are also the country's biggest companies overall. They are also remarkably stable and profitable, especially by international standards. And that will likely remain the case, thanks to strong management teams and limited competition.

But which bank is right for your portfolio? Well, there's a strong case to be made for **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD), for one simple reason.

1 simple reason to buy TD: safety

At first, this may sound crazy. After all, so many banks failed less than a decade ago, in the worst economic crisis in most of our lifetimes. Why would someone buy a bank if they were pursuing safety?

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Well with TD, the story is much different. One reason is the bank's dedication to risk management, which allowed the company to avoid the subprime mortgage market in the United States. This is also especially helpful today, considering the bank's growth in credit cards.

But there's another reason why TD can be considered a safe investment: its focus on retail banking. Retail is much less susceptible to the ups and downs of other business lines. For example, Capital Markets businesses, which involves things like investment banking and securities trading, can be extremely volatile.

A comparison with RBC

To drive home this point, one only needs to compare TD with **Royal Bank of Canada** (TSX: RY)(NYSE: RY). On the one hand, retail banking accounted for over 90% of net income for TD last year, with Capital Markets accounting for only 9%. Meanwhile, Capital Markets accounted for over 20% of earnings at RBC in FY2013, and 25% in the most recent quarter.

It gets better

There are a couple of reasons why TD's retail business is especially secure.

One is that Canadians have become more loyal to their bank than in years past, with less than 10% looking to switch. New services obviously play a major role in this. For example, when someone pays bills automatically from a bank account or credit card, switching to another bank can be both inconvenient and expensive.

Secondly, TD is especially popular, having won numerous industry awards for customer satisfaction.

For example, the bank recently ranked #1 in JD Power's ranking of Canada's big five banks – for the ninth year in a row! So it's hard to imagine an exodus of customers from TD to its competitors.

Other options

That being said, all of the banks have their strong and weak points. And there's nothing wrong with holding more than one bank. The free report below should help provide more clarity on the banks.

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