



Why You're Better Off Holding The Bank of Nova Scotia Instead of Toronto-Dominion Bank in 2015

Description

These days, when it comes to stocks, the United States is flying high. The economy is steadily growing, budget deficits are down, and the **S&P 500** has more than tripled since its low in 2009. And now, it seems everyone wants to hold U.S. stocks.

This can even be seen in Canada's big five banks. To illustrate, **Toronto-Dominion Bank** ([TSX: TD](#))([NYSE: TD](#)), which has a very large American presence, is up more than 13% this year. Meanwhile, **The Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)), which has minimal exposure in the United States, is up less than 6%.

But as we head into 2015, you're better off going against the grain and holding The Bank of Nova Scotia. Below we take a closer look why.

Concerns about TD

To be fair, there's a lot to like about TD. The bank has a sterling reputation for customer service and risk management. Its Canadian operations are very stable and profitable. Its American operations have lots of upside. And its focus on retail banking helps reduce risk. It's no wonder that its shares have outperformed each of its major competitors over the past dozen years.

But if history has taught us one thing, the star performer in Canadian banking is often next year's laggard. In fact, if you're willing to buy the less-popular stock, the odds are usually in your favour as the sector reverts to the mean.

TD could easily be the next example. While bulls point to upside in the United States, the country is very competitive, and profits are difficult to come by. The market is also very mature, meaning TD will have to fight and steal market share in order to grow.

Worse still, TD is trading at roughly 14 times earnings, the highest ratio among the big 5.

You're better off in Latin America

While TD has been surging, 2014 has been a frustrating year for The Bank of Nova Scotia and its shareholders. The stock has trailed its peers for a couple of reasons. First of all, there's been a broad selloff in emerging markets stocks this year – in fact, the company's stock was down 8% in January alone. Secondly, the bank has endured some hiccups in the Caribbean.

But the selloff in emerging markets really shouldn't apply to The Bank of Nova Scotia. The bank is concentrated in countries like Mexico, Colombia, Peru, and Chile – countries that are immune to some of the chaos happening around the world. And the problems in the Caribbean should be short term. Longer term, the bank's concentration in these markets should allow earnings to grow nicely.

Best of all, the bank's price to earnings ratio is under 12.0. This is very cheap for such a strong company with a focus in emerging markets. And it's certainly a better deal than TD shares.

CATEGORY

1. Bank Stocks
2. Investing

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1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BNS (Bank Of Nova Scotia)
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