3 Reasons to Buy Toronto Dominion Bank Now and Hold it Forever

Description

The key to investing success is not difficult, it is about identifying quality businesses with wide economic moats and stable earnings growth and then holding them. Typically companies that possess these attributes have the ability to consistently reward shareholders through regular and steadily growing dividend payments.

The importance of dividends becomes even clearer when it is considered they have made up around 38% of the total returns generated by the **S&P TSX Composite Index** since 1956. This is a large chunk of returns and if you're investing in stocks it simply means you can't ignore dividends.

One company that standouts for all of these reasons is Canada's largest bank by assets, **Toronto Dominion Bank** (TSX: TD) (NYSE: TD). The bank's strengths are clearly apparent with it having reported record earnings year-after-year since the global financial crisis. These strengths can be distilled down into a few key points.

1. Its business is almost impossible to replicate

Not only does the banking sector have considerable barriers to entry including requiring significant capital investment coupled with regulatory hurdles, but Toronto Dominion has amassed a large and dominant market share.

Between them the big six banks control over 90% of the mortgage market in Canada and a substantial portion of other aspects of the financial services market including wealth management. In combination with the steep barriers to entry, this makes their position virtually unassailable, protecting Toronto Dominion's competitive advantage.

2. It is well positioned to take advantage of the U.S. economic recovery

Of Canada's banks, Toronto Dominion has the greatest exposure to the U.S. with a significantbusiness franchise south of the border. This includes an extensive retail and commercial bankingbusiness, which is among the 10 largest U.S. banks along with securities, wealth, and assetmanagement businesses.

These businesses now contribute over a quarter of Toronto Dominion's net income and are set to experience even further strong bottom-line growth with the U.S. economy recovering better than expected.

For the third quarter 2014, actual U.S. GDP growth was 3.5% or 50 basis points higher than the 3% originally forecast by analysts and economists. This can be attributed to strong consumer spending, growing industrial activity and lower than expected unemployment.

I also expect this strong economic growth to continue with U.S. GDP growth for 2015 forecast to be 3.5%, well above the 2.7% forecast for Canada. This will feed greater demand for credit and other banking products which will boost earnings for Toronto Dominion's U.S. businesses.

Such a solid U.S. operational footprint also reduces Toronto Dominion's reliance upon the domestic market for growth, particularly with that market already oversaturated with a range of financial services providers. This gives Toronto Dominion a clear edge over those Canadian banks like **National Bank of Canada** (TSX: NA) and the **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM), which are predominantly focused on the Canadian market.

This solid exposure to the U.S. endows Toronto Dominion with superior growth prospects to the majority of its peers and should be a key driver of earnings growth as the U.S. economic recovery continues.

3. The bank has not missed a dividend payment since 1969

More impressively, it has hiked its dividend for the last four consecutive years, to now have a respectable 3.3% dividend yield and a conservative and sustainable payout ratio of 46%. Such a low payout ratio provides significant room for further dividend hikes as its bottom-line grows.

But even more telling is during the global financial crisis, when banks globally were slashing or eliminating their dividend payments, Toronto Dominion left its dividend untouched, a testament to its prudent risk management and the strength of the bank.

The bottom line is that success in investing does not have to be complicated, it simply boils down to choosing the right companies with solid businesses and stable earnings and then holding them for the long term.

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1. Bank Stocks
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1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:NA (National Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

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Author
mattdsmith