3 Reasons to Buy Toronto-Dominion Bank Instead of Bank of Montreal

Description

Investors are very nervous about Canadian banks these days, and for good reason. Canada's economy is dealing with sinking oil prices, teetering real estate markets, and increasing debt levels in Canadian households. Meanwhile, the U.S. economy is looking a lot more promising.

With this in mind, investors should be drawn towards **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and the **Bank of Montreal** (TSX:BMO)(NYSE:BMO), both of which have big U.S. banking franchises. So, which one should you go with?

Well, TD looks like a much better option. Below are three reasons why.

1. Simply a better bank

Let's start with the obvious: TD has a far better track record than BMO. Just look at their historical returns. TD shareholders have earned over 10% per year over the last decade compared to just 6.6% at BMO. TD is also better-liked by its customers, ranking first in the J.D. Power Canadian Retail Banking Customer Satisfaction Study among big five banks for the ninth year in a row.

Meanwhile, BMO has been up to some shenanigans. Last year it wired $87,500 of a client's money to a scammer and didn't reimburse the client until he went public. BMO has started another price war on the mortgage front. And it is suing four ex-employees who have joined Swiss bank UBS. Along the way, its CEO has gotten a nice pay raise, despite missing most of his financial targets. As an investor, these kinds of things really annoy me.

2. Better exposures

To put it simply, TD is perfectly positioned in this environment. Its big presence in Ontario and the U.S. East Coast means its customers are loving low oil prices. Its lack of exposure to energy firms is another plus.

The situation for BMO is a little more complicated. It doesn't have the same exposure to Ontario that TD does, and is more geared towards the western provinces. Down in the United States, it is concentrated in the Midwest. This is a bit concerning, since a higher dollar will impact the region's manufacturing sector. Worse still, BMO focuses more on capital markets than TD, a business that's under pressure in this environment.

3. More momentum

It should surprise no one that TD has performed better than BMO recently. To illustrate, let's take a look at the most recent quarter.

BMO was the first bank to report earnings for Q1/2015, and the results were generally disappointing. Adjusted net income decreased by 4% year over year, driven by margin pressures, lackluster growth numbers, and a decline in capital markets. The company's stock sunk in response.

The news was much better for TD shareholders. The bank grew adjusted earnings by 5%, reversing the precedent set by BMO. Growth numbers were strong in both Canada and the United States. The capital markets business (referred to as "wholesale" at TD) declined, but it isn't a big piece of the pie anyways.

So, TD clearly has more momentum than BMO, and these trends can take time to reverse themselves. Certainly this makes me more comfortable holding TD shares.

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Author
bensinclair