3 Reasons to Buy Toronto-Dominion Bank Instead of the Bank of Nova Scotia

Description

The past year has not been a great one for the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and its shareholders. Over the last 12 months, the bank's stock price has fallen by just over 3%, which is second-worst among the big six banks.

So, does that mean now is the time to jump in? Well, not necessarily—the news could easily get worse. On that note, below are three reasons why you should consider **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) instead.

1. Emerging markets risk

It's amazing what a difference 12 months can make. This time last year, the Bank of Nova Scotia's presence in emerging markets was seen as a tremendous asset. After all, these countries had tremendous growth potential, stable economies, and underbanked populations.

Now, the story is very different. The Caribbean has been a mess, with loan losses consistently through the roof. Countries like Peru and Chile are under threat from declining copper prices. Colombia is being pressured by dropping coal and oil prices. The bank is caught in the middle, so more bad news could be on the horizon.

Meanwhile, TD's presence in the United States wasn't all that exciting a year ago. The country's banking sector was plagued by low interest rates, intense competition, and heavy regulation. While those obstacles remain today, there are new hopes for American banks. Interest rates may rise soon, and the economy is firing on all cylinders. Without a doubt, the USA is a much better place to be than the Caribbean.

2. Natural resources

Let's face the facts: energy companies are struggling, and so are miners. This makes their debt especially risky, which is bad news for the Bank of Nova Scotia.

To illustrate, the bank has just over $15 billion in loans outstanding to the energy sector, or 3.4% of its total loan book. That may not sound like too much, but there's another $12.7 billion in undrawn lines of credit for the energy industry. Mining accounts for another $6 billion of loans. Not to mention all the mortgages and personal loans in places like Fort McMurray!

TD's exposure is much less severe, with energy loans totaling only $3.6 billion, or 0.7% of total loans. Mining accounts for another $2.2 billion. Furthermore, TD's Canadian focus is heavily weighted towards Ontario, shielding the bank from the oil rout even more.

3. A different approach to risk

Ever since an awful year in 2002, TD has placed a big emphasis on risk management. This certainly helped the bank during the financial crisis, and is very important in today’s environment.

The Bank of Nova Scotia raises a few more concerns. It’s been caught in a couple of messes recently—one involving **Allied Nevada Gold Corp.** and another involving **Cliffs Natural Resources Inc.** The bank was also singled out by *Bloomberg* earlier this year for boosting loans to condo developers. Certainly, this comes with big risks, and we’ll see how they play out.

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