3 Reasons to Own Wells Fargo & Co Instead of Toronto-Dominion Bank

Description

Historically, Canadian banks have made for much better investments than their American counterparts. This should surprise no one—our banks are known to be more profitable and less risky. Our banks all survived during the financial crisis, while American banks were failing left and right. Since then, the United States has severely tightened regulations on the financial sector.

That said, now might be the perfect time to invest in American banks. To illustrate this point, let's compare the two premier retail banks in each country: **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Wells Fargo & Co** (NYSE:WFC).

Without any further ado, below are the top three reasons to buy Wells Fargo over TD.

1. A difference in geography

There's no denying that Canadian banks are facing some major headwinds. Low oil prices are putting our economy at risk, our real estate market may be overinflated, and consumer debt remains sky high. As a result, our banks might face slowing loan growth, higher credit losses, and lower profits.

The mood is far brighter south of the border. The economy is doing very well, which should lead to increased loan demand. Interest rates may rise later this year, which would make these loans more profitable. Unemployment has fallen drastically, and wages are finally rising, so credit losses could easily fall.

The American banking industry is still very tough, but there's a big hope that profits will rise. That optimism just isn't found in Canada.

2. A difference in size

TD has about $1 trillion of total assets, but this pales in comparison to Wells, which has US$1.7 trillion. This size difference matters for a couple of big reasons.

First of all, fixed costs in banking have skyrocketed in recent years, mainly due to heightened regulation. Larger companies like Wells are better-equipped to absorb these expenses. Second, Silicon Valley companies are posing a serious threat to banks, and are putting up a strong fight. In order to fight back, banks will need to make some serious investments in new technology. Once again, the bigger banks are better able to take those steps.

3. A similarity in price

Remember, TD has a big presence in the United States, and it is not a small bank either. So, it's not particularly disadvantaged versus a company like Wells Fargo. That being the case, you would still expect Wells to be more expensive.

As it turns out, that's not the case at all. Wells trades for 13.2 times earnings, while TD trades for 13.1 times. Both companies trade for 1.7 times book value. So, they're essentially trading for the same price.

Why isn't Wells trading at a premium? It could be because Canadians have so few investment options, especially with energy companies getting creamed. In other words, many portfolio managers simply hold TD by default. That dynamic just doesn't exist in the United States.

The good news is that this creates a nice opportunity for the everyday investor. So, if you hold TD shares, now might be a great time to make the switch.

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