

Is Toronto-Dominion Bank the Right Bank Stock for You?

Description

Banks can sometimes be the best investments you can make, and sometimes they can be awful investments. Investors have grown concerned about the loan books of many of Canada's top banks because of oil and gas prices. When times were good, the banks were raking in tremendous profits; however, now there's concern that these banks may suffer.

Despite this, I believe investors should seriously consider starting—or expanding—a position in **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), which is likely the top bank in all of Canada. There are a few reasons for this...

The first has to do with its earnings and risk. In Q1 2016, the bank earned \$2.2 billion in adjusted earnings. This is up 6% year over year. The primary reason it has been able to do this is because it has kept its costs down despite the rocking market.

I'm not fazed by the risk. Less than 1% of its loan book is in the oil and gas industry. That means that if every company were to go belly up, it wouldn't be terribly significant to TD. Further, if there is a downturn in the housing market, TD can handle it. Presently, 45% of its loans, which have a loan-to-value ratio of 59%, are uninsured. Therefore, it would require a serious nosedive in housing for TD to suffer.

The bank has been able to do well and keep its risk low because it is a true retail bank. As we've seen with other banks that have had trouble earning because of weak trading divisions, TD focuses on generating revenue from you and me. Further, its U.S. retail group continues to get stronger and provide a 20% bump in earnings when the U.S. dollar is converted to Canadian.

Recognizing that the times are changing, TD has made smart moves to reduce its real estate costs. Specifically, it took a \$686 million restructuring charge in 2015 to close and merge branches. I do all my banking online, and I imagine many others do as well. There's no need for there to be as many branches as there used to be. Ultimately, these charges will help the bank save \$600 million a year by 2017.

To ensure that people like me continue using TD, it is investing some of those savings back into the design and development of money management tools such as MySpend, which helps users track their spending habits and set smart financial goals.

Ultimately, for a bank to be worthy of consideration, it needs to take all of the money it makes and distribute it to its investors. And TD has done that for quite some time. Management recently increased the quarterly dividend by 8% to a strong \$0.55 per share. If reinvested, this 3.95% can help any investor build a much larger position in this strong financial giant.

All in all, I'm a big fan of TD. It is focused on a much safer clientele and is reducing its costs while investing in the future. All in all, this bank stock seems like the right investment for any investor.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

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Author

jaycodon

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