Should Toronto-Dominion Bank Be a Pillar of Your RSP?

Description

For investors who have been remiss over the past few months, February is often treated as the month of the annual financial checkup. What many think of as going to the doctor's office is actual a very important time of the year when investors look at their portfolios to judge just what kind of financial health they are really in — what has to be done to improve?

When purchasing individual securities, it is essential to build a portfolio that is either managed throughout the year or that can be left alone for months at a time.

For most investors wanting to build the latter, one of the most important things to consider is if a company can be considered a pillar of the portfolio. Basically, certain companies operate in businesses that are more important than others. The banking industry is probably of one the most important industries in any country since it facilitates business for all others.

Looking at Canada's financial industry as a whole, there are five large financial institutions and a few smaller regional banks serving the country. Clients might not be happy with their service charges, but no one ever seems to complain about the strength of Canada's banks.

Investors can consider any one of Canada's biggest banks for their portfolios, especially in a long-term account like an RSP.

Looking at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), long-term investors have a lot to be happy about — even those who have been remiss in managing their portfolios. Over the past five years, shares have increased a total of almost 75% in addition to a dividend yield which currently sits at almost 3.25%.

As is common with Canada's banks, dividends have increased steadily. In fiscal 2013, dividends totaled $1.62 for the year with a dividend-payout ratio (dividends paid/earnings per share) of 46%. For fiscal 2014, dividends were raised to $1.84 and the payout ratio remained fairly consistent at 44%. In fiscal 2015, the dividend was $2.00 which equated to 44% of earnings. In the most recent fiscal year, the company paid dividends of $2.16 out of earnings of $4.67, translating to a payout ratio of 46%.

With an excellent track record of paying and raising dividends, Toronto-Dominion Bank has become a fan favourite. Currently trading at a trailing price-to-earnings multiple of approximately 14.5 times, this may not be the bargain investors are looking for.

As an investor, we must continue to ask the question, “What am I giving (paying) and what am I getting?”

In the case of Toronto-Dominion Bank, a number of investors seem to be happy paying up for a quality name to add into their portfolios. At these levels, however, it may take a little longer than expected for this tree to bear fruit.

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Date
2025/08/22
Date Created
2017/02/16
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