Toronto-Dominion Bank: Be Greedy While Others Are Fearful

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is arguably one of Canada's best-run banks.

The stock has traded at a premium to its peers in the Big Five because it has a terrific risk-management profile and a U.S. banking business that I believe is going to act as a huge tailwind for the company over the medium to long term thanks to a strengthening U.S. economy, corporate tax cuts, and deregulation initiatives put forth by the Trump administration.

There are many reasons why investors are fearful to own Canadian banks right now, but I think the dip that resulted from this fear is nothing more than a buying opportunity for long-term investors who are looking to solidify the cores of their portfolios.

Why is everyone so fearful?

It all started with negative press from the *CBC* which claimed TD Bank was involved with immoral sales practices. TD Bank stock took a slight dip, but it was later released that all the Canadian banks are guilty of such tactics, and the problem was not unique to TD Bank itself. Nevertheless, TD Bank got hit the hardest because the initial news report was aimed at it.

The fall of **Home Capital Group Inc.** (TSX:HCG) followed, which spread even more fear as many thought the Canadian housing market was ready to implode. Sure, there may be a bubble in Canadian housing prices, but that doesn't necessarily mean that a violent crash is imminent.

Home Capital Group and many other alternative mortgage lenders took on way more risk than the big banks were willing to consider, and the end result was a catastrophe. Due to systematic risk, the big banks were hit, but I don't believe the drop was warranted as the mortgages owned by them are far less risky.

Even if a housing crash were to happen, TD Bank would be least affected of the Big Six banksbecause it has a fewer number of uninsured mortgages than its peers, and the terrific risk-management strategy would prevent a catastrophic decline in TD Bank relative to other Canadianbanks.

Moody's Corporation recently downgraded the credit ratings of all the Big Six Canadian banks and stated that high debt levels and soaring housing prices aren't great news for the big Canadian banks.

Moody's said that the banks will experience a "more challenging operating environment … in Canada for the remainder of 2017 and beyond" and that "today's downgrade of the Canadian banks reflects our ongoing concerns that expanding levels of private-sector debt could weaken asset quality in the future."

Takeaway

The banks have been experiencing the "perfect storm" of fear-inducing news over the last few months. Despite the downgrade by Moody's, I still believe the big banks are terrific long-term investments at current valuations.

Canadian banks with U.S. exposure such as TD Bank are well positioned to soar over the next few years, and I would take Warren Buffett's advice to "..be greedy when others are fearful," while the general public shies away from the big banks.

Going forward, there could be more negative press released that will fuel the storm, but regardless, I'd start buying shares of the Canadian banks now before they start getting expensive again.

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