Toronto-Dominion Bank Down Over 7% Since March: Worth a Buy?

Description

Bank stocks are supposed to be some of the top investments you can make. Because they provide a wide variety of financial products, they are able to extract fees and revenue from their customers repeatedly. In many respects, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is the top bank in Canada.

But in March, CBC released a negative report about TD and that sent shares spiraling down. By the end of May, the company had given up nearly 10% of its value, which is a huge hit for a major financial institution. Since then, it has been slowly rising, but it's still down over 7% from its high.

Is the bank worth investing in, or should investors avoid it?

The reason the stock got hammered so hard was due to a report that TD pressured its employees to meet high sales revenue goals. This resulted in the employees sometimes going too far with their sales tactics and occasionally breaking the law. In many instances, employees admitted to increasing people's lines of credit without alerting them — a clear violation of the Federal Bank Act.

The actual negatives for TD were small from an earnings perspective, but it became a huge public relations hit. Bad press isn't great for banks, and it reminded investors of the **Wells Fargo & Co** (NYSE:WF) fiasco in 2016. In that instance, the Consumer Financial Protection Bureau fined Wells Fargo for opening more than two million bank accounts and credit cards without customer knowledge.

When Wells Fargo was hit with a US$100 million fine, the stock also dropped by over 10%. But since then, the company has appreciated by 20%. This just goes to show that these bad hits are sometimes short-term pain, but in the long term, these banks print money, so investors are going to come back.

TD is the exact same way. It's true that shares are down by 7%, but when we look at how the company is doing, the reality is simple: investors will be back, and they will push the stock higher. So, you should be greedy while major investors are afraid of the company. And here's why…

In Q2 2017, TD delivered $1.34 per share in earnings, beating investor expectations of $1.24 and crushing the previous year's earnings of $1.20. Net income was $2.5 billion, up from $2.1 billion in Q2

2016. South of the border was the star with an 18% boost in growth. This should only increase as interest rates in the United States grow, providing larger spreads for the bank to generate money.

TD then turns around and returns that money to its investors.

In the beginning of the year, the company boosted the dividend by 5%. Investors now earn $0.60 per quarter. Thanks to the drop, investors are now getting a lucrative 3.69% yield. So long as earnings continue going up — I see no reason why that'll change — investors should expect future dividend increases as the years go by.

Investing in TD provides a smart investing lesson. The market is a living creature. Sometimes it is exuberant, pushing companies high. Sometimes it is terrified, pushing companies low. These movements are not based on the company's numbers, but on emotions. If you can take advantage of that, you can load up on cheaper shares and ride the wave up.

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Date
2025/07/01
Date Created
2017/07/26
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