

Toronto-Dominion Bank Stock: Why a Dip Is a Buying Opportunity

Description

When it comes to Canadian banks, investors want only good news. Expectations are so high that banks are punished hard when their earnings marginally fall short of the consensus estimate.

The latest victim of its own success is **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). Its stock fell more than 2% when the lender slightly missed a consensus estimate for the fourth quarter.

Investors were not happy when Canada's second-biggest bank by market value reported an 18% jump in quarterly profit to \$2.7 billion from a year earlier. Adjusted profit was \$1.36 a share, missing the average estimate of \$1.38 by analysts surveyed by *Bloomberg*.

A weaker performance at the bank's wholesale banking division was the main culprit for this shortfall, falling 6% to \$694 million due to lacklustre capital markets activity.

Expressing his frustration over the market's high expectations for each quarter, the bank's CFO Riaz Ahmed said TD's overall performance in the quarter was positive and there was no reason for long-term investors to worry.

"We had a very strong third quarter and maybe coming out of that, analysts were looking at their models in a particular way but I think we had a fantastic outcome for Q4. It's our second-best quarter ever," he was quoted as saying by the *Reuters* news agency.

Why TD Bank stock is a strong buy

I have a very simple formula for dividend investors to consider when it comes to investing in Canadian banks: buy the one that has been underperforming. There is nothing on the horizon that raises a red flag about these banks.

Those who use this logic have done great. Look at **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)). After remaining the underdog for the most part of this year, its stock has recovered, handing in ~10% gains for the year — the same gains TD Bank is offering for the period.

Canadian banks are well capitalized, the economy is doing great, and the Bank of Canada is expected to raise interest rates going forward. This all bode very well for lenders that have massively outperformed the benchmark index this year.

The bottom line

For income investors, [investing in TD Bank](#) comes with a great reward. With a dividend yield of 3.62%, TD pays a quarterly dividend of \$0.60 a share. This payout has been growing ~7-10% annually, and I do see a lot of room for the further growth. I would take any weakness a buying opportunity for long-term income investors.

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