Toronto-Dominion Bank: Time to Take Profits or Is More Growth on the Horizon?

Description

Since August 2017, shares of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have appreciated by $9.60, or 15%, with an additional $1.20 in dividends. Growth stocks tend to experience similar growth, but more mature blue-chip companies tend to move slowly. With shares up as much as they are, should investors be looking to take profits?

Although the desire to sell shares is based entirely on your individual financial situation, there are a few things to consider when trying to gauge whether to sell your shares.

First, what will your tax hit look like? Capital gains can often eat up a significant amount of the gains, so you'll want to understand what you'll owe, especially if you're looking to invest in something else.

Second, do you want to give up the 3.24% yield that you're currently getting? Earning $0.60 per quarter and reinvesting it back into new shares of Toronto-Dominion or another stock entirely is a great way to invest with "house money." Do you want to lose that?

Then there's the fact that Toronto-Dominion should continue to grow over the coming year, especially with interest rates increasing. With the spread between savers and borrowers increasing, there's more room for the bank to earn money on its lending; we're already starting to witness this.

Toronto-Dominion had adjusted net income of $2.6 billion in Q4 2017 compared to $2.35 billion in Q3 2017. Its Canadian retail division saw net income of $1.664 billion, which is up 11% thanks to an increase in loan and deposit volumes. And in the United States, its adjusted net income was $812 million, an increase of 11%.

The company's full year numbers were just as impressive. Adjusted net income was $10.587 billion, up from $9.292 billion in 2016. And its adjusted diluted earnings per share were $5.54 compared to $4.87.

With the global economy firing on all cylinders, I expect saving to increase and the amount of borrowing to follow, thereby allowing the bank to continue growing its overall business.

Then there are the smart investments the bank is making in order to become more technologically savvy. It made a US$100 million investment to buy Layer 6 Inc., an artificial intelligence firm. The software uses predictive technology to understand and react to an individual customer's needs. Although this acquisition won't move any revenue needles directly, a happier customer is always important.

Looking back at the dividend again, the currently 3.24% is going to get better as time goes on. The bank has a history of increasing the dividend in the first quarter. At the start of 2016, the bankincreased the dividend from $0.51 to $0.55. In the same period of 2017, Toronto-Dominion increasedthe dividend from $0.55 to $0.60. I therefore fully expect to see the dividend increase again in the next couple of months.

Toronto-Dominion has had a great six months of growth. However, for many reasons, I don't expect that growth to halt. I recommend that investors hold off on taking profits off the table just yet, but if you decide to do so, make sure you first understand the tax and income implications.

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