

Why it's Time to Back Up the Truck on Toronto-Dominion Bank Stock

Description

When it comes to building the foundation of your portfolio, a Canadian bank is really a must-have if you have intend to beat the TSX over the long-term in a safe and calculated manner.

Of Canada's big banks, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is a standout player and is often considered Canada's safest bank because of management's impeccable risk mitigation strategy and its focus on retail banking, whose earnings are typically subject to a lesser magnitude of volatility. TD Bank is also among the most conservative of lenders, so fewer loan losses and earnings volatility can be expected versus its peers.

Ignore the naysayers: TD Bank remains a top pick

Many short-sellers have been targeting Canada's big banks, touting the catastrophic implications should a Canadian housing market collapse occur. Shorting the big banks hasn't been a very profitable endeavour and moving forward, it's likely that more shorts will continue to be squeezed out of their positions as TD Bank continues to reap the rewards from growth south of the border.

Not only is TD Bank a solid outlet into the U.S. market (~35% of revenues derived from America), but management has been proactively investing on growth initiatives that will produce a huge amount of value for shareholders over the long run.

Sure, TD Bank has paid up for many of its U.S.-based acquisitions, but I believe each acquisition may not ultimately be as expensive as they seem at the time of purchase. You'd be hard-pressed to find a cheap quality U.S. firm to scoop up these days.

Why TD Bank has a lower ROE than many peers do

This focus on acquiring quality at a premium has taken a hit on TD Bank's return on investment, which isn't great compared to that of its peers. That's because TD Bank's "expensive" investments aren't as accretive to earnings as they'd be down the road. Adding to the company's already impressive U.S. foundation is going to require management to loosen its purse strings, but when you consider superior growth versus the domestic market, it's well worth it if you intend to hang onto shares for decades at a time.

It's not just overpaying for U.S. firms either. TD Bank has made significant moves in the tech scene in order to protect itself from forward-looking technological disruptors. [Layer 6 AI](#) is just one example of TD Bank paying up top dollar for premium talent. This isn't to say that management doesn't consider value when it makes investments, but they're not afraid to pay up for premium sought after assets. As Warren Buffett once said, "It's far better to buy a wonderful business at a fair price than a fair business at a wonderful price."

Paying up for quality

[Future-proofing investments](#) like AI firms may not be accretive over the short-term, but if financial technology advances and begins to disrupt the old-fashion banking business model, TD Bank will be glad that they paid up to prepare themselves ahead of time instead of waiting for the disruption to happen and then scrambling to adapt.

With this in mind, it's clear that management has a true long-term time horizon, so if you share this view, then you should strongly consider adding a position to portfolio's core today. Shares may not be a bargain at 12.1 times forward earnings, but it's still a fair price to pay for what I believe is a wonderful business.

You're getting double-digit earnings growth and top-notch capital gains. And if you're worried about a recession, TD Bank stock will likely be first out of the gate when it's time for a bounce back.

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Author

joefrenette

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