Should You Buy Toronto-Dominion Bank (TSX:TD) Near an All-Time High?

Description

Investors often refrain from buying stocks near their all-time highs for fear of overpaying. However, here's another perspective. If stocks are trading near their all-time highs, it may mean the underlying businesses have been performing well.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is one incredible Canadian brand that's done extremely well and delivered amazing and consistent returns to long-term shareholders.

A $10,000 purchase of TD shares right before the last recession, at the end of 2007, would have more than doubled to about $26,700 today. The quality bank's growing dividends certainly helped, but even without the dividends, the investment would still have doubled to about $21,600. The total returns were nearly 10% per year.

How much should *you* pay for the bank?

Miraculously, despite more than doubling its share price, the stock isn't trading at a price-to-earnings multiple (P/E) that's much different from its end of 2007 P/E.

Right before the last recession, TD stock traded at below $35 per share at a P/E of 12.4. Today, at about $75 per share, the stock is trading at a P/E of about 12.5 at the time of writing.

How is that possible?

From fiscal 2007 to 2017, TD increased its earnings per share by almost 6.8% per year on average. In other words, while its stock price has been edging ever higher, its earnings have been keeping up. That's why its P/E hasn't changed much from a decade ago.

Notably, there was a setback in fiscal 2008 during the financial crisis of 2007-2008, in which the bank experienced a decline of 15% in its earnings per share. However, TD recovered the loss in two years, and since then, its profitability has continued its ascent.

For the next three to five years, analysts estimate TD will grow its earnings per share by 9-12% per year. If the lower end of the range materializes, under normal market conditions, an investment in TD today will double in less than six years thanks partly to the fact that the stock offers a decent dividend yield of about 3.5%.

Some investors are keeping lots of cash on the sidelines as they wait for another financial crisis, at which point the stock could trade at, say, a 40% discount to its current price.

It's up to individual investors to decide if they want to buy a quality business such as TD at a steep discount, whenever the opportunity may come, or whether to buy it at a fair price today.

If investors buy quality businesses at reasonable valuations, are able to hold on to the stocks through thick and thin, and of course, add to their positions when the market tanks, they won't regret it.

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