Here’s Why Toronto Dominion Bank (TSX:TD) Should Be in Your Investment Portfolio

Description

Over the years, the Canadian banks have delivered excellent results. As one of the few banking sectors to navigate the financial crisis relatively unscathed, it also became known worldwide as one of the safest banking sectors in the world today. The banks’ consistent results have continued quarter after quarter and their dividends have grown with their earnings. The impressive historical statistics makes owning these institutions of the most important components of any Canadian investor’s portfolio.

All of the banks have their own particular flavour to consider before making a purchase. For this reason, it is a good idea to include a few of the banks in your portfolio. My favourite banks are **Bank of Nova Scotia** for its high dividend and Latin American market exposure, **Royal Bank of Canada** for its international, particularly Asian, operations, and, of course, **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) for its extensive operations in the United States.

TD, along with Royal Bank, is considered to be one of the top banks in Canada. Its stellar results over the years have supported this thesis. As recently as the third quarter this year, TD increased its profit by 12% over the same period last year and earnings per share increased by 13%. Revenue was also up by a healthy 6% year over year.

The bank benefited from its U.S. operations, capitalizing on both the strong American economic conditions and from the tax reforms that President Trump implemented. The impact of these operations was clearly represented in its segment growth, with U.S. retail banking earnings rising by 27% as compared to a 7% rise in the Canadian segment.

Even though TD has a somewhat smaller yield than many of the other banks at around 3.5%, its yield is strong and growing. In March, the bank raised its dividend by 11.7%. TD aims to maintain a payout ratio of around 50% of earnings, so if earnings continue to rise, you can be reasonably confident that the payout will continue to rise with them.

Probably the biggest turnoff facing the banks is the fact that Canadians remain enormously indebted. A lot of the bank’s income comes from lending to consumers, and those loans are starting to become expensive. Much of that debt is due to mortgages issued to buy houses around Canada, especially in the more expensive regions of Canada like Ontario and Vancouver. The majority of TD’s Canadian housing loans are issued in Ontario, meaning it will be impacted by a slowdown in mortgage growth should it occur. Indebted Canadians also may be stretched for future spending, so it is difficult to say how this will ultimately affect the banks.

Another potential challenge for TD and the Canadian banks, in general, could be the impact of financial technology companies on the banks. While their businesses are strong, new technologies like cryptocurrencies and crowdfunding might, in the future, change banking the way online shopping has punished brick-and-mortar stores. It’s too early to tell what the final impact of technology may be.

Even with these issues, though, TD is a strong company. Any downturn resulting from debt issues may be a good time to step into TD as a long-term hold. When you buy TD, you are buying this bank as a Canadian way to capitalize on U.S. strength. The truth is that this bank is becoming as much American as it is Canadian, and that strategy is paying off. Buying into TD as one of your core holdings gives you a lot of diversification into the U.S. while still owning a Canadian company.

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