

Act Now and Buy Toronto-Dominion Bank's (TSX:TD) Stock

Description

I will cut right to the chase: it's time to buy **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). Thanks to the recent market jitters, Canada's best bank is now trading at very attractive valuations.

Are you trying to time the bottom? Don't. It's rarely a viable strategy and you may risk missing out. When high-quality companies go on sale, it's time to buy. There is always the possibility that the stock can sink lower. Equally as likely, however, is the company will rebound and you will miss your chance.

Foolproof strategy

I've [written about this before](#). One of the easiest and most effective ways to know when to buy Canada's Big Five banks is when their price-to-earnings ratio (P/E) drops below historical averages.

Although it held out for quite a while, TD finally dipped below its historical P/E average of 12.8. Like clockwork, over the past 20 years, financial crisis included, the company has always bounced back.

A P/E of 12.8 implies a share price of \$74.88. At today's share price of \$72.44, you are getting TD at a 4% discount. Although this may not seem like much, this rarely happens for the company. Prior to this most recent downtrend, the last time TD traded below its historical P/E average was in May of 2017.

Turbocharged gains

In 2019, analysts expect the company to grow earnings by approximately 7% over full-year 2018 results. This is par for the course for Canada's best bank — steady and consistent growth. Add in the 4% discount, and you are looking at double-digit capital appreciation.

As a bonus, the company's dividend yield is now at its highest point in over a year. As you can see, topping up or initiating a position in TD today is all but guaranteed to add a little extra to your capital gains and income.

Investment thesis unchanged

Nothing over the past couple of weeks should have changed the [investment thesis on TD](#). If anything, there was a positive development. The Bank of Canada raised its benchmark interest rate by 25 basis points. Almost immediately, Canada's large banks, including TD, raised their prime rates.

As such, investors can expect the company's net interest margin (NIM) to rise once again. The bank's NIM is the spread between how much interest income it generates, and the amount of interest paid out to lenders. The higher the spread, the higher the company earns.

If you're worried that there is more downside ahead, then you can average in to your position. It is important to note, however, that the opportunity to pick up TD bank at a discount is a rare, regardless of market conditions.

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