Why This Top Dividend Stock Is a Buy in This Market Downturn

Description

It seems nothing is worth buying in this market where investors are too scared, the economy is showing some signs of weakness, interest rates are rising, and the inflationary pressures are pushing the costs higher for many top companies.

The hardest hit in this environment are the financial stocks, which were among the top beneficiaries of the robust economic growth of 2018 and the U.S. tax cuts. With that growth cycle maturing, they are falling victim to a gloomier economic outlook where investors fear that loan growth might plunge, mortgage loans may turn sour, and the credit expansion may stall.

In Canada, the shares of top five lenders are down between 5-11% during the past three months. In the U.S., the **KBW Nasdaq Index** of 24 bank stocks is down more than 12%, double the fall in the broader **S&P 500 Index.** Financial stocks were the worst-performing sector in the S&P 500 yesterday when markets suffered steep losses.

For dividend investors, any prolong weakness will open a window of opportunity to accumulate their favourite income stocks. In the banking group, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) remains my top recommendation if you're one of them.

The biggest reason for this bullish sentiment is the strength of the lender's balance-sheet, its ability to produce superior returns, and the diversification of its revenue base.

In the fourth-quarter earnings report released last week, the lender reported a 44% jump in profit from the U.S. retail segment, helped by improving net interest margins, record contributions from its stake in the TD Ameritrade brokerage and the federal tax overhaul.

TD's Canadian operation in the quarter posted profit of $1.74 billion, accounting for nearly 60% of total earnings.

That said, some investors, mainly those south of the border, have concerns about Canada's housing markets and lender's exposure to it. Those who are short on Canadian banks believe that an economic shock will lead a collapse in the housing values, leaving banks with a lot of bad mortgage debt.

But TD Bank is well positioned to survive in that scenario, which, in my view, is very unlikely to play out. The threat of Canada's housing meltdown has passed after the country tightened its mortgage rules and implemented reforms that have considerably slowed the pace of price gains in home prices and reckless buying.

Bottom line

I don’t think the recent weakness in financial stocks have run its course. We are in a market where investors are cutting risks and moving to cash and safer assets. TD, at $71.84 a share and with 3.64% dividend yield, is down about 10% from its September peak.

You should wait until the first quarter of 2019 to get a better entry point if you’re looking to add a top dividend stock, such as TD, in your portfolio. The current market environment suggests that you’re going to get a much better price.

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