Keep Calm: Toronto-Dominion Bank (TSX:TD) Is Still a Great Dividend Investment

Description

Since 1995, shares of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) have been one of the best investments you could have made on the TSX. Over that period, the stock has gone from $2.50 to nearly $70 per share. Those returns don't even include its annual dividend, which sometimes reached 4% or more.

There are plenty of reasons to believe this steady outperformance will continue. If you're looking to build long-term wealth through predictable income stocks, Toronto-Dominion shares should be a big part of your portfolio.

Widely respected for its stability and payout

It's no secret that Toronto-Dominion has demonstrated more long-term stability than nearly any other global company. For example, the S&P International Developed Low Volatility ETF consists of the 200 least-volatile stocks in the global index. The sixth-largest position is Toronto-Dominion.

This predictability has allowed the bank to consistently raise its dividend payout, which currently stands at 3.9%. Since 2009, the dividend has risen every single year, yet its payout ratio remains under 50%. So, despite paying more out to investors each year, the bank still retains most of its earnings.

While further dividend increases are likely, Toronto-Dominion has also looked to share buybacks to return capital to shareholders. Last year, the company repurchased 20 million common shares, representing roughly 1% of the entire company. In December, it announced plans to repurchase an additional 1% of its shares.

Will a recession upend expectations?

At the end of 2018, Toronto-Dominion experienced a rare drop of 15%, which has helped push the dividend yield up to nearly 4%. The last time the payout exceeded 4% was back in 2009, when conditions were significantly more dire. What’s caused the sell-off?

Most of Toronto-Dominion’s earnings are generated in the U.S. and Canada. And as a bank that has exposure to nearly every industry and sector, whatever the market expectations are for the domestic economies, Toronto-Dominion stock will surely follow.

Canada’s housing market is perhaps the biggest risk the bank faces, and notable voices are sounding alarms.

Toronto home prices have seen “the fastest increase since the late 1980s,” says **Bank of Montreal** chief economist Douglas Porter. That was “a period pretty much everyone can agree was a true bubble,” he added.

Vancouver has also faced rapidly rising prices, much of which has stemmed from international demand for properties. “We believe that 2015, and part of 2016, saw a significant increase in speculative activity, leading to an unsustainable surge in Vancouver home prices,” **Canadian Imperial Bank of Commerce** noted in a recent report.

Should you buy shares following the drop?

JPMorgan Chase & Co. recently released research estimating a “20-30% chance of a recession in 2019, with an increased probability in 2020.” But even if a recession becomes a reality, investors would do well to dollar-cost average into Toronto-Dominion shares.

For example, if you had invested in the bank at its 2008 highs, just before the global credit crisis, you still would have doubled your money by 2018 when including dividends. If you had invested regularly into shares throughout that period, your return would have been much higher.

In times of recession, there’s no doubt that banks have outsized exposures to a weakening economy. But history has proven that even if your timing is poor, investing in companies like Toronto-Dominion — which has consistently focused on shareholder returns versus growth at all costs — is a likely path to success.

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