TFSA Investors: Is Now the Time to Buy Toronto-Dominion Bank (TSX:TD) Stock?

Description

Canadian savers are buying top-quality stocks inside their TFSA accounts as part of their retirement planning strategies.

The move makes sense, especially for younger investors who might want to sandbag their RRSP contribution room for later in their careers when they should be in higher tax brackets. Using the TFSA is also attractive due to its flexibility as well as the fact that any income or capital gains that accrue are kept out of the hands of the taxman when the time comes to spend the money.

Let's take a look at **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) to see if it might be an interesting pick right now.

Bank aversion

A quick look at the headlines in the past couple of days would certainly make an investor think twice about buying the Canadian banks. One analyst sees a 20% drop coming, while a prominent U.S. investor is shorting the group. Warning bells are sounding about a possible global economic slowdown and inverted yield curves in Canada and the United States could be signalling a near-term recession.

All this is occurring at a time when Canadians are carrying historically high levels of personal debt and pundits are pointing to potential further weakness in the domestic housing market.

It's no surprise, then, that TD's share price has come under pressure of late, falling from $77 in late February to the current price of $73 per share. That's still well above the December low near $66 that occurred when the markets were convinced the financial world was falling apart again.

Opportunity

Additional near-term weakness could certainly be on the way, but history suggests buying TD on a dip tends to be a profitable move for long-term investors.

The bank is widely considered to be the safest pick among the big Canadian banks and the U.S. division provides a solid hedge for investors against a potential downturn in Canada. The mortgage portfolio is large, but a good chunk of the loans is insured and the loan-to-value ratio on the rest is low enough that things would have to get pretty ugly before TD sees a material impact.

The bank still anticipates annual earnings-per-share growth will come in at 7-10% over the medium term, and investors should see ongoing dividend increases that fall in line with those results. TD's current payout provides a yield of 4%.

Investors who buy today can pick up the stock for about 12 times trailing earnings. That's not overly cheap, but it's reasonable for a bank of TD's quality.

Should you buy?

I wouldn't back up the truck, as we could see more weakness in the coming weeks, but any additional downside should be viewed as an opportunity to add the stock to your portfolio. Over the long haul, TD tends to deliver strong returns, and trying to catch the bottom on the dips often results in missed dividends and lost upside opportunity, as investors saw in the first two months of 2019.

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