RRSP Investors: Is Toronto-Dominion Bank (TSX:TD) Stock a Safe Buy Today?

Description

Canadian savers are using their RRSP portfolios to set aside cash for a comfortable retirement.

One common strategy involves owning quality dividend-growth stocks inside a self-directed RRSP and using the dividends to buy additional shares. Over time, the power of compounding can turn relatively small initial investments into substantial savings, especially when the stock appreciates in value along with the rising dividends.

Which stocks should you buy?

Industry leaders with strong track records of dividend growth have proven to be strong picks, and the larger Canadian banks often serve as anchor positions in retirement portfolios. Recent weakness in the sector, however, has investors wondering if this is the best time to buy the Canadian financials.

Let's take a look a **Toronto Dominion Bank** (TSX:TD) (NYSE:TD) to see if it deserves to be in your RRSP right now.

Headwinds

Analysts and traders have recently turned sour on the Canadian banks. The threat of a global economic slowdown due to trade tensions between the U.S. and China is one part of the story and Brexit concerns are also adding to the fear. In Canada, weak economic data through the end of 2018 has put the Bank of Canada's rate-hike program on hold, and some pundits are even calling for an interest rate cut before the end of the year. South of the border, the yield curve inversion is setting off recession warning bells, and any downturn in the United States normally has a negative effect on Canada.

How does this impact TD?

Pundits are constantly warning that Canadians are carrying too much debt, so a break in the rate-hike trend should reduce risk in TD's large mortgage portfolio. Fixed-rate mortgage costs have actually started to fall in response to the steep drop in bond yields, although the banks have been slow to match the move, meaning that they have been enjoying better margins in the past three months. That could turn up as a positive when the next quarterly reports come out and borrowers should see better deals emerge when the spring selling season gets going in the next couple of months.

Regarding the U.S., TD's American operations account for more than 30% of the company's total profits. If a recession is on the way in the United States, the bank could feel some pain as a result. On the positive side, the larger U.S. presence should be attractive for investors who want to own a large Canadian bank while having good long-term exposure to the U.S. economy.

Opportunity

The stock soared from $67 per share in late December to above $77 in February. The recent pullback in the sector has attracted a lot of media attention, but TD still trades at $73 today. At that price, investors can pick up the stock for roughly 12 times trailing earnings, which isn't overly cheap, but should be reasonable for this top-quality bank.

TD anticipates earnings will continue to grow at 7-10% per year, which should support ongoing dividend increases. The distribution currently provides a yield of 4%.

Should you buy?

Additional near-term weakness might be on the way amid the ongoing economic uncertainty, although we could also see a sharp rebound if the U.S. and China suddenly sort things out. The January 2019 Canadian GDP data actually came out quite strong, so the Q4 2018 slump might have been a blip.

Overall, TD should be an attractive buy-and-hold choice for a dividend-focused RRSP, and picking up the stock on a pullback has historically proven to be a profitable long-term decision.

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