TFSA Investors: Should Toronto-Dominion (TSX:TD) Be a Top Pick?

Description

The Tax-Free Savings Account (TFSA) is one of Canada's most under-appreciated investment vehicles. Canadians can grow their investments tax free and can withdraw without restrictions.

Unlike the Registered Retirement Savings Account (RRSP), investors don't get a tax break for contributions. However, they aren't taxed at retirement either and the TFSA is far more liquid.

Although bears have come out in full force against Canada's big banks, they make excellent investment options for your TFSA — and none more so than **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

A top-performing stock

In recent history, TD Bank has outperformed its Big Five banking peers. Over the past 10, five and two-year time frames the bank has posted greater returns than all of its peers.

It is therefore surprising to see TD Bank trail in 2019. Its peer group has averaged a 12.26% return year to date. In comparison, TD Bank has returned 11.2%, which is nothing to be disappointed about, especially given that Canada's bank stocks have been targeted by short sellers. However, it has been a rare occurrence over the past decade. As such, I consider this to be a good buying opportunity.

A top dividend stock

Toronto-Dominion Bank is also a top dividend stock. Canada's banks are coveted by income investors, as they pay a safe and reliable dividend. Whereas banks worldwide cut their dividend during the financial crisis, Canada's banks stayed the course. As a group, they navigated the crisis without a dividend cut.

They have all since returned to dividend growth and none have been more impressive than TD Bank. This Canadian Dividend Aristocrat has an eight-year dividend growth streak. Over the past-five years, it has averaged 10 per cent annual dividend growth, tops among the big five.

Expect this strong dividend performance to continue. TD Bank has one of the lowest payout ratios of the group (49%) and has the highest expected earnings growth rate (+9%) among its peers.

Good entry point

Another reason to add TD Bank to your TFSA is value. TD Bank is currently trading at a 10% discount to its historical price-to-earnings average, which has only happened a few times over the past decade. Like clockwork, the company has returned to trade in line with historical averages.

The bank is also trading at a 10% discount to analysts' one-year price target of $83.23 per share. There are 16 analysts covering the company with an average "buy" rating.

Foolish takeaway

TD Bank's recent underperformance has presented investors with a good entry point. As one of Canada's premier financial stocks, it can be a foundational stock for one's TFSA. A stock that investors can build their portfolio around.

TD is close to being a triple threat. A triple threat is a stock that qualifies as a growth, income and value stock. At today's prices it qualifies as a value stock and as we've seen, it is a reliable income stock. Where it comes up just short is in terms of growth. To qualify as a growth stock, it would need to achieve double-digit growth. That being said, a 9% growth rate on a $138 billion company is impressive.

Whether you're a millennial, a gen X, a boomer or anything between, TD bank is a perfect choice for your TFSA.

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