# Buy Toronto-Dominion Bank (TSX:TD) for Income

## Description



This week is a big week for bank earnings. Investors are looking into their earnings to see if there is any weakness associated with the Canadian housing market showing up in their earnings. If this proves to be the case, there is a pretty good chance that there will be a downturn in the stock prices, leaving room for new investors to begin buying shares of the Canadian banks.

Even if earnings turn out to be strong and the banks' shares take off, holding the Canadian banks over the long term has proven to be a winning proposition. Take the **Toronto Dominion Bank** (TSX:TD)( NYSE:TD) for example. Since the early 1990s, long-term holders of TD would have made a return of over 1000% on their original investments from capital gains alone.

The bank continues to grow quarter after quarter, a trend that continued in the first quarter of this year. Revenue increased by 8% year-over-year and total net income increased by 6%. Net interest income increased by a healthy 8% as well, a positive sign for the bank overall.

Of course, the Canadian housing market is an issue for the bank, especially as it was loan growth that powered much of the bank's returns as Canadian real estate went on a bull run throughout the 1990s, 2000s, and 2010s. A slowdown in this area will hurt TD's returns from this traditionally high-growth business. This was definitely evident in the 22% decrease in Canadian Retail net income, a number that investors will be watching in the upcoming Q2 earnings.

An eventual recession will also hurt the bank's lending, at least for the duration of the economic downturn should it occur. Fortunately for investors in TD, this bank knows how to plan ahead. The bank has grown its business to the point where almost half of its income comes from the United States. This allows the bank to benefit from the relatively stronger, less leveraged, household balance sheets of Americans versus hugely indebted Canadians.

This U.S. strategy paid off handsomely in the first quarter, when U.S. net income from its retail segment increased by 30% over the same quarter of 2018. Revenue from the segment increased by 6%, while net interest increased by 10%, which is why you buy this bank. It gets you away from the Canadian market and gives you strongly growing exposure to the United States.

This doesn't even include the bank's dividend, which has experienced phenomenal growth on its own. Currently, the bank's dividend sits at just under 4%, not a bad payout for income-focused investors. But this 4% yield includes decades of growth, including the double-digit 10.4% dividend announced earlier this year.

## This is a great bank to own in a Canadian recession

TD had the foresight to develop its U.S. banking business over a decade ago and is continuing to reap the rewards from its investments in that region. While the Canadian economy will most likely continue to be a drag for the next few years, its fast-growing U.S. business should help power good returns and dividend growth in the years to come.

Your best bet would be to buy some shares in TD today and wait for the earnings announcement to buy the rest. If you're lucky, the shares will fall on poor Canadian banking numbers and you'll be able to buy the rest of your shares at a discount.



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