Toronto-Dominion Bank (TSX:TD) vs. Royal Bank of Canada (TSX:RY): Banking Heavyweights Face Off

Description

Smart investors in the equities market are never found to have risky and unsafe stocks in their investment portfolios. They understand that there are no risk-free stocks, but they know how to avoid the risks. Bank stocks are safe havens in which to park your money and be rewarded with the best possible returns.

When it comes down to picking the ideal bank stocks, the logical choices are the banking heavyweights. **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) are the two largest in terms of market capitalization. Both banks are representations of financial stability and strength.

Both financial institutions experienced episodes of economic downturns, market meltdowns, recessions, energy shock waves, and every other crisis imaginable. Yet through it all, investors were never disadvantaged due to non-payment of dividends. If ever there was a brief cut, the move was for investors' protection.

The most reassuring part is that during the recent financial crisis, none of the Big Five banks sought a financial bailout from the government. Thus, the stocks of banking heavyweights deserve to be the top holdings in any portfolio basket.

The face-off

Toronto Dominion Bank, or TD, is a revered, if not the most admired financial institution in the Canadian banking industry. Even in America, TD's U.S. Personal and Commercial Banking is delivering a brisk business. The number of branches this $104.8 billion bank has on the U.S. East Coast exceeds the total number in the whole of Canada.

The retail banking and wealth management divisions deliver most of the bank's revenue and profit. These segments are more stable and predictable. In contrast, Royal Bank of Canada, or RBC, derives earnings from wholesale and trading revenues that are volatile and somewhat unpredictable.

TD has the edge in terms of asset size, but RBC is Canada's largest bank by market capitalization, which makes the $150.7 billion diversified financial service company a dependable and trustworthy investment prospect. RBC's Chief Executive Officer David McKay is correct when he said, "It's great to have this capital flexibility."

Dividend comparison

TD and RBC are "hold for life" stocks as investors will certainly receive steady, increasing stream of dividend income. There are also occasions to benefit from capital growth. Passive income seekers and TFSA investors have learned to increase gains by reinvesting the dividends.

RBC's five-year average dividend yield is 3.76%, with the current dividend yield practically the same. On the other hand, TD's five-year average dividend yield is 3.47%, although the current dividend yield is lower than 3.0%.

The current macro environment is challenging not only for TD and RBC, but also for the rest of the bank stocks. However, if you're after long-term performance, capital preservation, and growing dividends, these bank heavyweights are the best choices.

But your greatest advantage as an investor is this market dominance of the two banks in the local banking industry and strong global footprints. You don't need undue stress when investing. TD and RBC are the safest and profitable investments around.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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Date
2025/07/20
Date Created
2019/06/25
Author
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