



Why All Canadian Investors Should Own TD Bank (TSX:TD) Stock

Description

If you can find a stock that consistently outperforms not only the index but also its sector, there's a strong case for buying that stock. Among Canadian banks, **Toronto-Dominion Bank** ([TSX:TD](#)) ([NYSE:TD](#)) fits that bill. Over the past five years, it has outperformed the TSX by 31% and the banking sub-index by 19%. If you'd invested \$10,000 in TD Bank 10 years ago, you'd have approximately \$25,000 today — not even including dividends.

What's even more incredible is that TD may be able to keep it up. Powered by a strong U.S. Retail business, TD is growing faster than any of its Big Six peers and becoming a major player in the United States. Compared to other banks like **RBC**, TD is a veritable growth machine — and yet despite that fact, it's still safe as milk.

A strong reason for continued outperformance

As previously mentioned, TD stock has historically outperformed, beating both the TSX and the banking sub-index. However, that alone wouldn't make the stock a buy. Past performance doesn't necessarily indicate future performance, and it *could* be that TD's best days are behind it.

That's not likely to be the case, however. TD Bank has [a massive presence in the U.S.](#), which has contributed the lion's share of its recent growth. The eighth-largest retail bank in the States, it's already growing fast there while still having room to grow. With TD, we have a perfect scenario where we observe a high rate of growth in one business unit and have every reason to believe it will continue. Yet despite that, the stock is still super cheap, trading at just 12 times earnings.

A great income play

With a dividend yield of around 3.9%, TD is a classic high-yield stock. However, if you think buying TD today and getting a 3.9% yield is good, you haven't seen anything yet. Because even though TD is already a high yielder, it's also a [dividend grower](#) that tends to raise its payout by about 10% a year. This means that today's 3.9% yield could turn into a 7.8% yield on cost in just seven years. So, it's

easy to see why TD stock has even more income potential than meets the eye.

Risk factors

Even though TD is the best Canadian bank stock at present, it faces certain risk factors.

For one thing, the Canadian dollar has been rising lately, and if that persists, then TD's U.S. growth will slow. TD earns U.S. dollars in its U.S. business then reports them in CAD, which results in higher earnings. If CAD gains against USD, the bank's earnings-growth rate will inevitably slow down.

Another factor related to the U.S. is the potential for greater losses. The U.S. banking environment is much less regulated than Canada's and has suffered far more banking crises. Should another major crisis hit the U.S., TD's U.S. retail business could suffer right along with it. For now, though, the U.S. economy is chugging along well with no signs of slowing down.

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