Better Buy: Toronto-Dominion Bank (TSX:TD) or CIBC Bank (TSX:CM) Stock?

Description

Canada's Big Five banks are some of the safest and most reliable investments in the country. Year after year, they have proven their worth and are some of the most important dividend stocks on the **TSX Index**.

During the financial crisis, banks across the globe cut their dividends — not so in Canada. Although dividend growth streaks did come to an end, not a single one of Canada's big banks cut dividends. It is an enviable track record.

Historically, the Big Five have moved in tandem. No one bank outperformed the others for any prolonged period and all have had their moment to shine. In recent years however, we have seen a decoupling from this trend.

Over the past five years, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) has led the Big Five with average returns of 7.14% annually. In comparison, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has been one of the worst performers with average annual returns of only 0.386%.

Yes, you read that correctly. CIBC's stock hasn't been able to crack 1% average annual growth.

Buy the worst-performing bank?

One strategy is to buy the worst-performing bank of the previous year. Why? Once again, history has proven that the worst-performing Big Five bank of the previous year has outperformed the year following.

The problem with trends is that they only remain until the trend stops. Case in point, CIBC has been one of the worst-performing stocks in each of the past five years. Unfortunately, it has done little to help its stock price, and in each subsequent year, the bank has continued to underperform.

In 2018, CIBC was the worst performer among its peers, losing 16.43% of its value. Unfortunately, not much has changed in 2019. CIBC is up a mere 0.60%, which is once again the group laggard.

This is not a strategy I would recommend.

In fact, had investors done the opposite of the popular strategy, they would have done quite well. TD Bank was the best-performing bank of 2018 and its 13% gain is tops among the Big Five again this year.

Buy the best bank for total returns

When it comes to Canada's banks, there are two data points that separate the group – growth rates and yield. CIBC has the highest yield of the group at 5.44%, 157 basis points above TD Bank's 3.87% yield. Toronto-Dominion's yield just so happens to be the lowest of the bunch.

Surprised? Don't be. Given that TD Bank has the higher dividend growth rate, CIBC's high yield is a function of its recent underperformance.

Looking forward, Canadian Imperial Bank of Commerce is expected to post earnings growth in the low single digits. Once again, CIBC is the laggard in this area. On the flip side, TD Bank has the highest expected growth rate at 7.73% annually over the next five years.

Given the recent performance and expected growth rates, there is no question that TD Bank is the better buy. CIBC's high yield is not enough to make up for its complete lack of capital appreciation. With Toronto-Dominion, however, investors are certain to enjoy higher total returns.

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