TD Bank (TSX:TD) vs Bank of America (NYSE:BAC): Which Is the Better Buy?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has long been Canada's best-performing bank stock, with growth numbers that its Big Six peers can't match. Over the past five years, it has nearly doubled the **TSX** financial sub-index' returns, delivering steady and growing dividend income to boot.

In light of TD's past performance and current growth prospects, buying it appears to be a no-brainer. If you want to own a Canadian bank, it's clearly the best of the six large caps available, beating the rest on every metric except for valuation.

If we compare TD to U.S. banks, however, it might be a different story. As a Canadian investor, your broker most likely provides you with a U.S. dollar account in addition to your main Canadian one, so buying U.S. stocks is no major hurdle.

This means you can easily pick up shares in big financial institutions like **Bank of America** (NYSE:BAC).

With a huge presence in the world's largest financial services industry, BoA is a giant that in the past made many investors wealthy.

More recently, however, it's been a volatile stock that has seen some dramatic downswings. If you're trying to decide between TD and BoA, the following are a few factors to take into account.

Historical returns

Over the past five years, BoA has performed much better than TD has, giving investors an impressive 95% return. However, BoA fell off dramatically during the financial crisis, losing about 93% of its value, and its late 2000s bull run was really just a recovery from its 2009 near-miss.

If we start at 1995, TD's cumulative return has destroyed BoA's, gaining 2900% while the later increased by only 150%. BoA has also given investors a bumpy, volatile ride, compared to TD's more gentle rise.

Growth potential

Both TD and BoA have been solid growers lately. Net income was similar for both in the most recent quarter, with TD's rising 9% to BoA's 8%. However, BoA's diluted EPS was up way more, at 17% to TD's 8%.

In terms of recent growth, I'd give the nod to BoA. TD does have more theoretical growth potential, because it's a far smaller bank with a large accessible U.S. market.

Dividend income

Both TD and BoA are dividend payers. TD's stock yields 3.9%, while BoA's yields around 2%. Currently, you'll get a better yield with TD. However, over the past five years, BoA has had a much higher dividend growth rate, increasing its payout by a whopping 60% a year on average.

By contrast, TD is only increasing its dividend by about 10%, so BoA's dividend could easily catch up with TD's.

Foolish takeaway

Over the very long run, TD Bank's stock has performed much better than BoA's, but in recent years the opposite has been the case. In the short term, Bank of America probably has more potential upside; however it's also riskier, being concentrated in the less-regulated U.S. market.

The U.S. is also an incredibly important market for TD, as its U.S. retail business has been powering most of its recent growth. If you're willing to take a little risk for more upside, buy BoA, but if you're looking for (relative) safety, buy TD.

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