Toronto-Dominion Bank (TSX:TD) Thinks Canadian Investors Are in Trouble

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) thinks Canadian investors are in trouble. The bank is particularly concerned with savings rates. According to Statistics Canada, the savings rate recently fell to its lowest level in more than a decade.

Brian DePratto, a TD Bank analyst, told the *Financial Post* that "It's concerning that households aren't building up buffers and prepping for retirement like they used to." This leaves millions of Canadians vulnerable to an economic downturn.

DePratto added, "The extent to which Canadians turn around their priorities when it comes to their financial situation could also mean less money for consumer spending." That may eliminate the biggest economic driver (consumption growth) of the past decade.

Not saving enough is always a problem. But even if you have a sizeable nest egg, economic pressures could put your investments in peril. If you're worried about your portfolio, get familiar with the information below.

Energy is transforming

Over the next several decades, the North American energy market will be completely transformed. Fossil fuels will undoubtedly remain part of our economy and everyday life, but their importance will gradually wane with the rise of electric vehicles, renewable energy, and home efficiency upgrades.

Low-cost producers should remain competitive for a very long time, but high-cost producers should feel the pain relatively soon.

Companies like **Suncor Energy Inc.**, **Husky Energy Inc.**, and **Canadian Natural Resources Ltd** all break even at around US$40 per barrel.

That's bad news given that international competitors with deeper pockets—including **Exxon Mobil Corporation**, **Chevron Corporation**, and **Royal Dutch Shell**—are all pursuing projects in the U.S.

that could approach breakeven levels as low as US$15 per barrel!

If you're investing in fossil fuel stocks, especially high-cost producers like oil sands companies, you may want to rethink your positions immediately. Conditions will only grow more difficult for these stocks.

Housing is teetering

Housing prices across Canada, particularly in hyper-urban areas like Toronto and Vancouver, have been rising at a healthy pace for more than a decade. That's caused many analysts to warn investors and homeowners about a potential bubble.

Bloomberg thinks Canada's housing market is the most vulnerable to a pricing correction. According to Fool contributor Vishesh Raisinghani, Canadian households spend more than 50% of their monthly income on mortgage payments.

"A deleveraging and consequent correction in house prices seems imminent, but timing the market is nearly impossible," Raisinghani says. "The best investors can do is to avoid the companies that are over-exposed and seek out assets that are relatively insulated from the housing market."

Financial stocks are particularly vulnerable to a collapse in housing. That could spell trouble for Canadian banks.

Banks aren't prepared

As the energy paradigm shifts and housing slows, stocks like **Royal Bank of Canada**, **Laurentian Bank of Canada**, and **Canadian Imperial Bank of Commerce** could be in trouble.

In fact, one famous investor is betting millions that their stock prices will correct by 20% or more.

"Canada has not had a credit cycle in a few decades," legendary investor Steve Eisman told *Bloomberg* earlier this year. "I don't think there's a Canadian bank CEO that knows what a credit cycle really looks like.

I think they're unprepared for how much their capital ratios could go down if there's just a simple normalization of credit, not a calamity, just a simple normalization of credit."

Eisman most famously spotted the 2008 financial crisis in the U.S. *before* it happened, earning billions for investors that followed his advice. He doesn't see an outright collapse for the Canadian banking sector, but notes that even a slight dip in conditions could have large effects.

"What I'm simply calling for is a normalization of credit losses, which Canada hasn't seen in over 20 years," he believes. "And I think the banks, in terms of their reserves and their balance sheets, are woefully unprepared for that."

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