



Is it Safe to Buy Toronto-Dominion Bank (TSX:TD) Stock Today?

Description

The pullback in the share prices of Canadian bank stocks over the past month has investors wondering if this is the right time to add financial stocks to their portfolios.

Rate fears

The market is punishing bank stocks after the U.S. Central Reserve decided to cut [interest rates](#). Lower rates can put pressure on net interest margins and, consequently, reduce profits. Analysts are trying to decide in more cuts are on the way this year and through 2020, and the uncertainty might be triggering a flow of funds out of the financials.

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is best known for its Canadian operations, but it actually has more branches in the United States. The American business contributes roughly one-third of total profits, so the sell-off that recently hit the U.S. bank stocks also had an impact on TD.

Recession threat

Another concern is the recent inversion of the U.S. yield curves. The yield on American 10-year bonds dipped below that of the two-year notes. Historically, this has signalled a potential U.S. recession in the next 24 months.

Pundits debate whether or not the inversion is a reliable predictor of a pending economic downturn, but the market tends to have a herd mentality, and all the media hype has probably contributed to the selling pressure. In general, a slowdown in economic activity and a potential rise in unemployment is negative for banks.

Trade wars

The trade battle between the United States and China is adding to the market volatility. The longer the

two sides drag out the negotiations and implement additional tariffs, the more likely it is that the global economy will take a hit.

At the same time, the U.K. is scheduled to leave the European Union by October 31. In the event the separation occurs without a reasonable divorce agreement, financial markets could get a bit ugly.

Value

TD is down from \$77.50 to \$72.50 per share in less than a month. That's a significant move for the bank over such a short period of time.

At this price, the stock trades at 12 times trailing 12-month earnings. That's certainly not a fire sale. TD's smaller [peers](#) are trading at multiples in the 8.5-10.5 range.

However, TD is widely considered to be the safest choice among the large Canadian banks, so it generally commands a premium price in the market.

Dividend

TD has a strong track record of raising the dividend. In fact, the compound annual dividend-growth rate is about 11% over the past 20 years.

The distribution should continue to increase in line with anticipated annual earnings-per-share growth of 7-10%. The payout provides a yield of 4%.

Opportunity

Investors might want to start nibbling on TD at the current level and look to add to the position on any further downside. Historically, dips in the stock price have proven to be strong opportunities to buy.

The U.S. will want to get a trade deal done with China before the 2020 election. Any sign of an impending agreement would likely trigger a rally in bank stocks.

Regarding Brexit, the new prime minister Boris Johnson is talking tough, but he also wants to keep his job. Negotiations will go down to the wire, but Johnson must ensure he doesn't send his country into economic chaos.

As a result, the current doom and gloom in the market might be overdone, and we could see the banks rally on positive international news in the coming months.

In Canada, the plunge in mortgage rates is giving the housing market a second wind, and that should show up as a positive impact on TD's results in the next few quarters.

If you have some cash available, TD is starting to look attractive for a self-directed TFSA or RRSP portfolio right now.

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