The Safer High-Dividend Bank Stock for Your TFSA

Description

Canadian Western Bank (TSX:CWB), **Laurentian Bank of Canada** (TSX:LB), and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) all announced earnings on Thursday.

Out of the three banks, Toronto-Dominion Bank provides investors with higher risk-adjusted returns than Canadian Western and Laurentian.

TD CEO Bharat Masrani commented on the uncertain macroeconomic environment: "As we head into the final quarter of the year, the macroeconomic environment has become less supportive. With the strength of our franchise and the investments we've been making in our capabilities, I am confident in our ability to continue meeting our customers' needs while delivering value for shareholders."

Tax-Free Savings Account (TFSA) investors should not worry about adding high-yielding bank stocks to their portfolio. Despite the trade war volatility and recession concerns, **TD Ameritrade**, among other leading Canadian banks, is well prepared to handle any global economic concerns.

Canadian Western Bank

Canadian Western Bank popped almost 2% on market open after declaring earnings per share of $0.81 for the quarter ended July 30. Investors were excited to hear that the bank had decided to raise the quarterly dividend to $0.28 per share.

Even after the dividend hike, the yield on Canadian Western's dividend at the current price of almost $32 per share is only 3.4%, far less than many less risky competitors. A primary indication of preparedness, the Basel III leverage ratio for Canadian Western is far lower than peers at 8.3%.

The Basel III leverage ratio is a leverage ratio which divides capital by the bank's total consolidated assets. Risk exposure comes from a drop in the price of the assets harming the solvency of the bank.

Laurentian Bank of Canada

Laurentian Bank of Canada fell almost 1% on the market open. Although this bank stock issues a dividend of 6% to investors at the current price of $44, the bank also comes with more risk.

The bank's adjusted return on shareholder equity is 8.5% — a below-average return on equity compared to peer banks like Canadian Western and Toronto-Dominion.

Meanwhile, although Laurentian maintains a stronger capital position than required by Basel III, the bank's Common Equity Tier 1 ratio is also below many peers at 9%.

Toronto-Dominion Bank

Toronto-Dominion Bank rose by a modest half a percent on market open after missing earnings. The initial rally didn't last, as the stock's price normalized before lunch on Thursday.

TD's Common Equity Tier 1 Capital ratio came in higher than both Canadian Western and Laurentian Bank of Canada at 12%. Not only is Toronto-Dominion one of the safest banks, but its dividend provides investors with an annual yield of over 4% at the stock's current price of $71.58.

Foolish takeaway

Toronto-Dominion Bank remains one of the best banks to add to a TFSA. Shareholder confidence is secure, as demonstrated by the weak reaction to Thursday's earnings miss. The fact that the bank's stock price did not fall is a testament to the trust and confidence of its shareholders.

For the most part, TFSA investors should also not worry about Laurentian Bank as it offers shareholders a healthy dividend yield of 6%. The competitive return makes up for the added risk in the bank's riskier capital position. TFSA investors with a large appetite for dividends and aggressive savings goals should take a look at Laurentian Bank.

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1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:CWB (Canadian Western Bank)
3. TSX:LB (Laurentian Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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