



Which Is the Best Bank Stock to Buy Heading Into 2020?

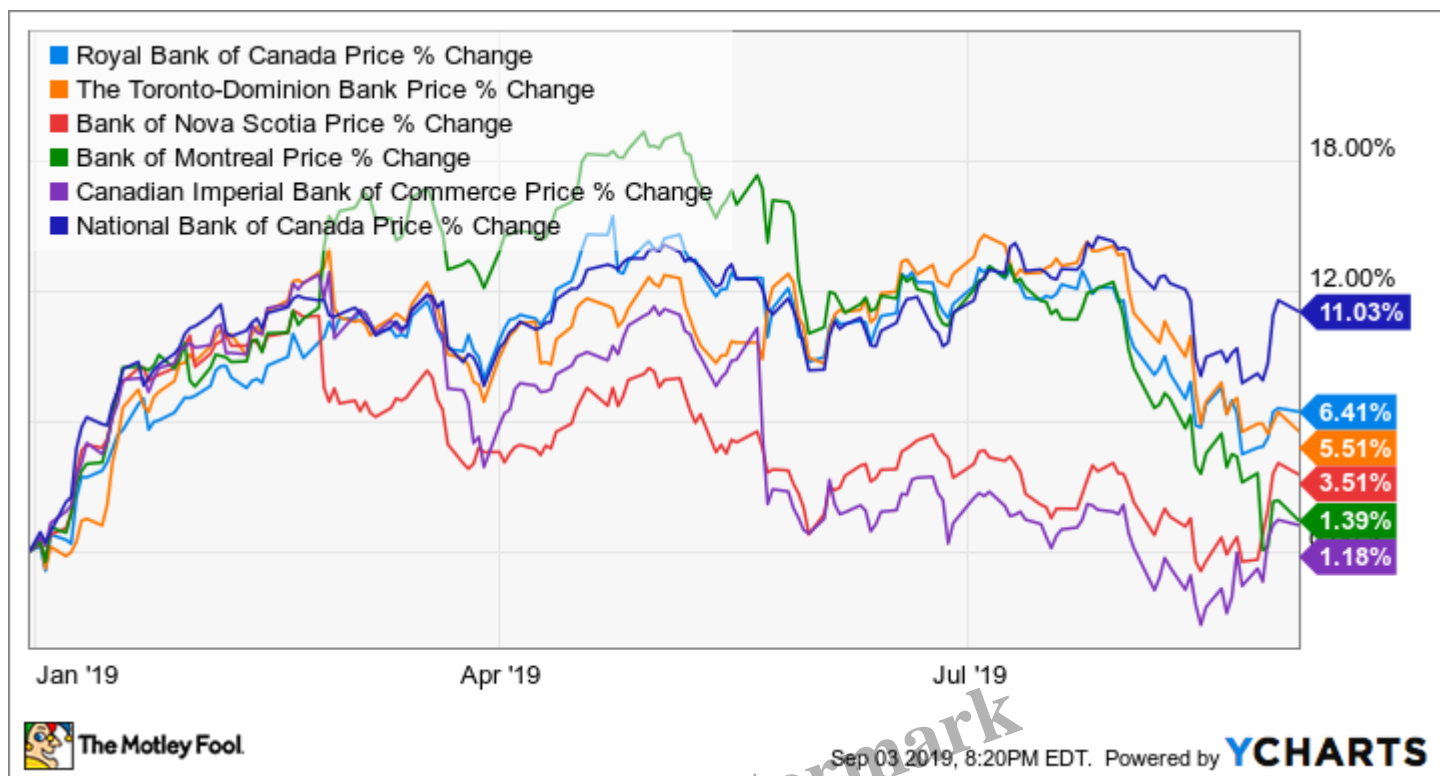
Description

Big bank stocks should serve as a part of the foundation of any investor's core portfolio because they have market leading positions, are highly profitable, and pay out juicy sustainable dividends.

In my opinion, they're much better long-term investments than GICs because they offer [greater income and price appreciation](#) over the long haul.

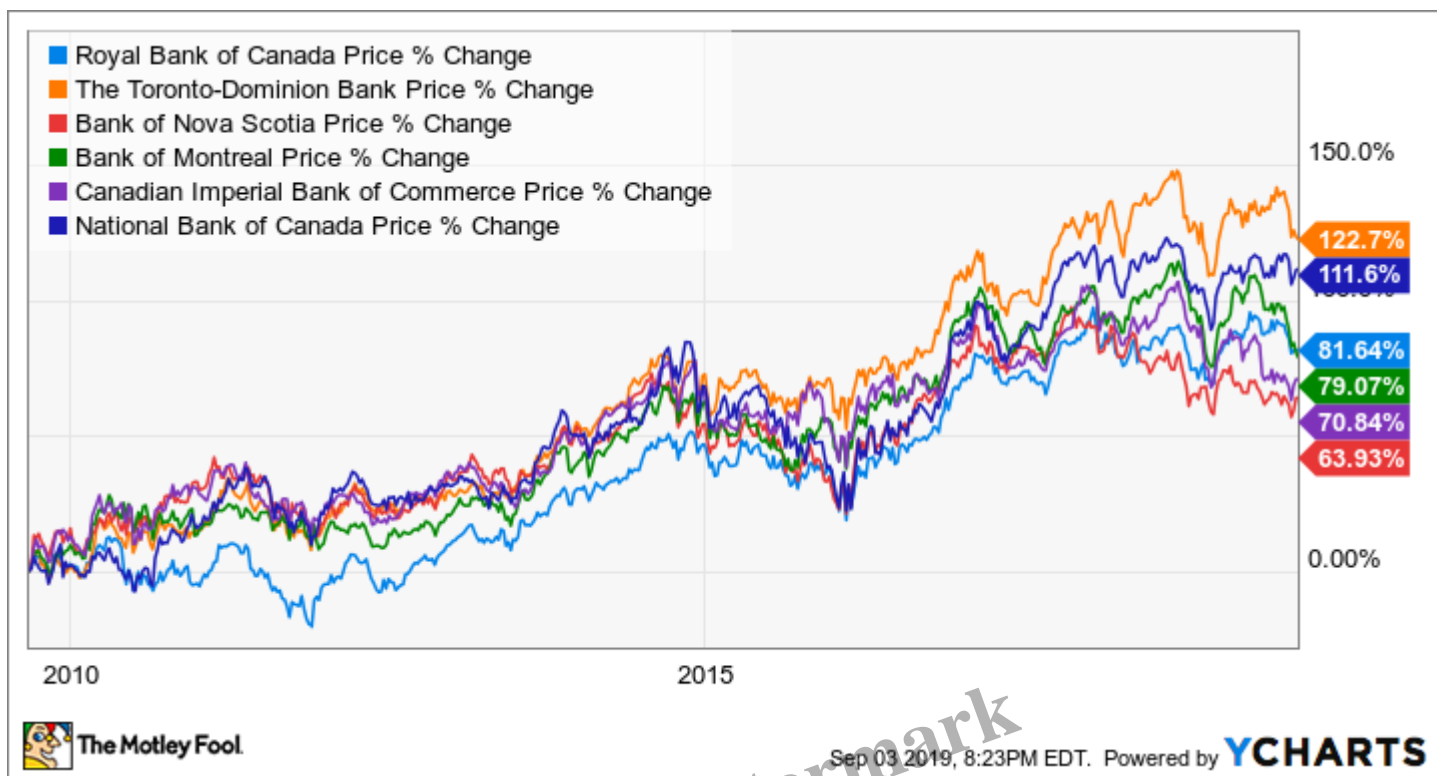
The million-dollar question is this: which is the best big bank stock to buy going into 2020?

In the case of the Big Six bank stocks, which tend to be stable investments most of the time, the past performance is a good indicator of future performance. Year to date, **National Bank of Canada** ([TSX:NA](#)) stock has performed the best as shown in the graph below.



Data by YCharts

Over the longer term, National Bank appears to alternate with **Toronto-Dominion Bank** ([TSX:TD](#)) ([NYSE:TD](#)) in taking the lead. For example, in the last 10 years, TD stock has appreciated 122%, while National Bank stock has appreciated 112%. In other words, their long-term results are close.



Data by YCharts

It really depends on when you buy. Simply put, you can't go wrong buying on dips. In fact, accumulating shares on meaningful dips of more than 7-15% will boost long-term returns significantly.

Let's compare these two top bank stocks to see which may be a better buy today.

Growth prospects

TD's earnings are viewed to be lower risk because more than 90% are from Canadian and U.S. retail banking, of which 40% of the 90% are in the U.S., which tends to grow at a faster pace than the Canadian operations.

National Bank's earnings are mostly in Canada, including a big portion in Quebec. The U.S. Specialty Finance and International segment is high growth, but it makes up a mere 11% of the bank's net earnings.

Additionally, the bank earns about a third of its net income from the Financial Markets segment whose earnings have greater volatility.

TD Bank and National Bank have the best earnings growth prospects among their big bank peers. They're expected to increase their earnings-per-share by 6.3% and 6.1% per year, respectively, over the next three to five years.

Dividend

TD and NA stocks currently offer safe yields of 4.1% and 4.4%, respectively, and their 10-year growth rates are 8.3% and 7.2%.

Two things drive dividend growth: earnings growth and potential payout ratio expansion. On one hand, TD's slightly higher earnings growth rate is a positive. On the other hand, National Bank's payout ratio is estimated to be lower at 42% this year versus TD's 47%.

Going forward, their dividend growth rate likely won't stray far away from their earnings growth rate, though, indeed, there's some room to increase their dividends at a slightly higher rate from expanding their payout ratios.

So, which bank is a better buy?

TD Bank is trading at a modest [discount](#) of more than 10%, while National Bank is trading at fair value.

We haven't had a recession for 10 years. According to history, we're due for one. If we're to experience one soon, I'd personally be more comfortable holding onto TD Bank going into 2020 and beyond because of its lower risk earnings mix and greater U.S. exposure.

CATEGORY

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TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:NA (National Bank of Canada)
3. TSX:TD (The Toronto-Dominion Bank)

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