Is TD Bank (TSX:TD) Stock Safe for New Investors?

Description

There are plenty of reasons for new income investors to buy and hold shares in **TD Bank** (TXS:TD)(NYSE:TD) from relatively high growth for a Big Five lender to a sturdy foothold in the U.S. However, with a growing number of pundits predicting a recession on the North American continent, is this stock safe to keep in your dividend portfolio through a painful market correction?

Investors can bank on Bay Street's finest

The argument can be made that pretty much any big Canadian bank is safe enough to hold for the long term, with the strongly developed financial sector being highly defensive. With so few banks operating in the Canadian financial world, each of the Big Five keeps each other in check by being extremely competitive but also by having a distinct niche. For instance, **Scotiabank** has a strong Latin American presence, while TD Bank has been growing fast in the U.S.

As such, any of the Big Five banks could form the backbone of a low-maintenance dividend portfolio. In terms of assets, TD Bank carries the most weight among its Bay Street peers, though perhaps more importantly for passive-income investors, the bank has committed itself to an annual dividend increase. With a yield nudging 4%, the bank doesn't pay the biggest yield among the Big Five, though its stability combined with that rare growth make for a uniquely attractive stock.

Heading up the Big Five, an elite group of bankers comprising nearly 90% of all Canadian banking, TD Bank is one of the most secure of investments: If a stock like TD Bank were to crash, the economic environment would be such that no other asset on the TSX would be safe. That said, there are distinct risks specific to bank stocks that few first-time investors are likely aware of.

Should you fear loss of market share in bank stocks?

It might seem unlikely, but this could come about from a security issue such as a data breach like the one that hit **BMO** and **CIBC** last year or from a slowdown in a specific financial market. To take the latter risk, if geopolitical or economic unrest were to impact a country in the Pacific Alliance, Scotiabank could potentially lose out to its Bay Street rivals, for instance.

Likewise, should the U.S. go into recession while Canada remains relatively unscathed, a more domestic-focused banker could gain market share. Indeed, this is perhaps the greatest risk currently facing TD Bank, and would-be investors will therefore have to weigh how bullish they are on the American economy before stacking shares in the home of the green leather armchair.

The bottom line

Offering a winning combination of attractive market ratios and tasty dividends, any of the Big Five banks have long been worth adding to a long-term portfolio geared towards passive profit, or as the cornerstone of a new TFSA or RRSP. TD Bank is especially secure, given its sheer size and its sturdy presence in the U.S., though each of the Bay Street Five has its own merits — and its own weakness.

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Date
2025/07/02
Date Created
2019/09/08
Author
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