When The Next Recession Hits, You Don't Want to Be Invested in TD (TSX:TD)!

Description

I am very rarely bearish on bank stocks. There is a consensus among investors that the gains achieved by investing in bank stocks are some of the most predictable capital gains in the stock market.

With all the hype around bank stocks, you may be wondering how any bank stock can make the *don't buy* list. The reason why you should not be holding this company with a looming recession is because during the 2008-2009 recession, it lost 49% of its share price!

That means an investment of $10,000 made around September 2008 would be worth $5,121 a few months later. At that point, you might as well have spent $4,000 playing blackjack and deposited the remaining $6,000 because you would still be better off.

The company that I am referring to is **TD** (TSX:TD)(NYSE:TD), which does not live up to the hype that typical bank stocks do. The reason why the next recession will be very costly for TD investors is because of its exposure to the United States stock market and its declining operational cash flow.

Exposure to the US market

If you were to ask an American what company is the ninth-largest bank in the United States by assets, I guarantee that some of the answers would be **Barclays, State Street** or **Capital One**.

Never in an American's wildest dreams would they believe that TD's United States division, TD Group U.S. Holdings LLC, is the ninth-largest bank in United States. With assets of $384 billion, it ranks one spot above Capital One.

One of the leading causes of the 2008-2009 recession was the exposure of financial institutions to the subprime mortgage industry. As banks purchased mortgage-backed securities from each other, the decline in prices for mortgage-backed securities triggered stop-loss sales (computers programmed to sell when a share dips below a predetermined amount) which perpetuated the decline in share prices.

My concern with TD is its exposure to the U.S. markets, which are subjected to far less regulations and penalties than the Canadian financial institution industry. Thus, even without the inherent flaws in the economy prior to the 2008-2009 recession, the fact that TD is exposed to clients in the United States puts it in a precarious position.

Declining operational cash flow

Operating cash flows are declining for the third consecutive fiscal year from $37.4 billion in fiscal 2016 to $5.7 billion in fiscal 2018.

A declining operating cash flow is not a good sign, as it indicates that TD is generating increasingly less revenue from its main line of business. As an investor, this should concern you, as the banking industry is extremely competitive, potentially indicating tumultuous times ahead.

Given that TD's operating cash flow declined from $34.9 billion in fiscal 2017 to $5.7 billion in fiscal 2018 due to a $12 billion reduction in working capital, investors should be wary.

Summary

When it comes to investing in bank stocks, I am generally a supporter.

TD, however, leaves very little to be excited about. Its U.S. division is currently the ninth-largest bank in the United States by assets. For those of you who witnessed the 2008-2009 recession, you will know that the lack of oversight in the United States imposes significant risk on banks that do business there. With $384 billion in assets in the United States, I would be cautious about investing in TD.

Operating cash flows are also decreasing, reinforcing my point that TD is a stock to avoid.

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