Will the TD Ameritrade Buyout Send TD Bank (TSX:TD) Stock Higher?

Description

One of the biggest pieces of financial news to come out this week was the announcement that **Charles Schwab** (NYSE:SCHW) would be buying out **TD Ameritrade** (NASDAQ:AMTD). An all-stock deal, the acquisition will result in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) owning 13.4% of Charles Schwab.

This deal is unambiguously good news for Charles Schwab, as it will make it a powerhouse discount broker with colossal market share. But is it good for TD itself, and will it help the stock? To answer that question, we need to look at the deal in more detail.

What the deal will entail

The Charles Schwab-TD Ameritrade deal is an all-stock transaction, meaning that TD Bank will receive SCHW shares as a result of the deal. This makes TD a 13.4% owner in America's largest discount brokerage–assuming the deal closes.

How it could affect TD Bank

Becoming a part owner of Charles Schwab could affect TD Bank in a number of ways–some good, some bad.

The main positive that could come from the deal is less reliance on trading fees. When Charles Schwab announced that they were eliminating trading fees, many other brokerages were caught with their pants down — and were forced to make the same move in order to keep up.

TD Ameritrade was hit particularly hard, as trading fees made up 34% of its revenue, whereas they only made up 6% of Charles Schwab's.

Had TD continued holding TD Ameritrade as an independent partially-owned subsidiary, its investment may have struggled from the loss of revenue. Now, as a part owner of Charles Schwab, TD has a position in a company that's already cracked the "no fee trading" code.

Now for the bad news:

Charles Schwab's historical performance is nowhere near as good as that of TD Ameritrade. Whereas the former is up a whopping 2,861% since 1997, the latter is "only" up 816%. I put "only" in scare quotes because 816% is a pretty good return for a 22-year period, but it's much worse than that of the TD Ameritrade stock that TD Bank owned prior to this deal.

Is it good news for TD shareholders?

Despite the fact that TD Ameritrade has done better than Charles Schwab over the years, I think the buyout is mostly good news for TD Bank.

The reason being that TD Ameritrade was just not prepared to deal with no-fee trading as an independent company.

Of all the U.S. brokerages that eliminated trading fees last month, TD Ameritrade relied on such fees the most by far. Coming in at 34% of revenue, there's no way the brokerage could have made up the difference in the short term.

Charles Schwab already reduced its reliance on trading fees before totally eliminating them, so TD's new position in Charles Schwab is likely a better investment going forward than TD Ameritrade would have been.

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