TD Bank (TSX:TD) Stock Slides: Buy the Dip?

### Description

Since its most recent earnings report, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) has seen its shares fall about 2.9%.



Owing to a massive increase in provisions for credit losses (PCLs), the bank's net income declined 3% year over year, while full-year net income grew by the same amount.

These were disappointing results for the bank, which had previously had the strongest growth metrics among Canada's largest financial institutions. Powered by a fast-growing U.S. Retail business, the company's stock had been the biggest gainer among the Big Six.

This year, all Canadian banks are facing challenges owing to a risky consumer credit market and slowing domestic growth. TD's U.S. operations had provided it with a certain amount of protection in the past, but now that seems to be faltering. The question investors need to ask themselves is whether TD can return to the kinds of growth numbers that drove its superior performance in the past. To answer that question, we need to look at what happened in the most recent quarter.

## Why TD slid

TD's most recent quarter saw a number of challenging developments. First, declining consumer credit quality led to a rise in PCLs. Second, a major decline in wholesale banking drove net income lower. Finally, U.S. retail revenue growth decelerated, increasing just 7% year over year compared to 20-50% in past quarters.

Of all of these developments, the latter is the most alarming.

U.S. Retail had long been TD's growth engine and the main reason for its outperformance compared to other Canadian banks. With revenue growth in that business unit slowing, the bank has fewer options to make up for revenue declines in other business units, like wholesale banking. Although TD's U.S. business is still growing, it will be challenged going forward by the loss of **TD Ameritrade**, which TD will be swapping for a 13.4% stake in **Charles Schwab**. That's a huge development that merits further exploration.

## The TD Ameritrade deal

By far the biggest thing to happen to TD this year was the Charles Schwab TD Ameritrade buyout.

TD Ameritrade is a huge earnings grower for TD bank. Its results are included in the bank's U.S. retail division in its quarterly reports and are a major contributor to that business unit's superior growth.

Soon, TD's 42% stake in TD Ameritrade will be swapped for a 13.4% stake in Charles Schwab.

On the surface, this is a good thing, since TD Ameritrade was caught with its pants down on no-fee trading. TD Ameritrade depended on trading fees more than any other U.S. broker, and it urgently needed a lifeline. In light of that, the Charles Schwab buyout is good news.

However, Charles Schwab has not done as well over the decades as TD Ameritrade has, so the situation is worse than if no-fee trading had never happened. In that scenario, TD Ameritrade likely would have continued outperforming, and kept delivering superior growth for TD. Of course, that's all academic. There's no way TD Ameritrade could have kept trading fees and survived, so it's for the best that TD is going to get a big stake in Charles Schwab, which depends on trading fees far less. But the fact remains that it would have been optimal for TD if no-fee trading had never happened at all.



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