Revealed: I Just Bought This Stock for My RRSP

Description

One of the most exciting things about the new year — for this finance nerd, anyway — is contributing fresh capital into Tax-Free Savings Accounts (TFSAs) and RRSP accounts.

As I'm normally fully invested, I don't usually have the opportunity to buy new stocks. Sure, most of my holdings pay dividends, but those amounts just trickle in. Besides, I've signed up for dividend reinvestment programs for some of my holdings, so that cash doesn't even reach my account.

Let's take a closer look at the stock I just bought in one of Canada's finest companies. It just happens to be trading at a pretty nice valuation, too. That's my kind of combination.

Canada's finest bank

I've long said that I consider **TD Bank** (TSX:TD)(NYSE:TD) to be Canada's finest bank. The company has a lot going for it.

Let's talk first about its Canadian operations, which are the envy of the industry. TD's mortgage division continues to post solid growth driven primarily by HELOCs, although it has been hit by a somewhat tepid housing market.

The wealth management business continues to grow, hitting its target of double-digit growth from that division. The insurance operations consistently post strong results, too. And I like TD's slate of credit cards.

One of the reasons why Canadian banking results are a little weak today is that TD is making some significant investments in the future. It continues to hire more bodies in high-value parts of the branch, particularly in wealth management.

The company is also spending aggressively on new technology — investments that will ultimately make the bank more efficient and drive growth.

The good news is that TD's expansion into the United States is helping to pick up some of the slack from lackluster domestic operations. Profits from its U.S. assets reached $1.2 billion in 2019, a 7% increase from 2018's results.

Part of that was buoyed by strong results from **TD Ameritrade**. Business is booming at the discount brokerage, as investors are fear missing out on the strong stock market.

Robust equities also bode well for TD's capital markets business, but I'm not worried about that part of the company if markets tank. Companies will always need to access public markets, and working with TD is one of the better ways to get there.

Taking care of shareholders

One of the things that prompted my TD Bank purchase was a minor sell-off in the stock boosted the dividend yield to just over 4%. It's not very often shares reach that yield point.

Not only am I getting a solid yield, but TD's dividend growth is tough to match as well. Since 2011, when TD resumed its dividend growth trajectory after pausing for the Great Recession, the company has hiked its payout 13 times. The quarterly dividend has increased some 150% in that time, climbing from $0.305 to $0.74.

The payout should be going up again relatively soon. The company announced 2019's dividend increase at the end of February, 2019. Last year's hike was seven cents per quarter, which worked out to a 10.4% increase. I expect investors will see a raise in the neighbourhood of 7-8% this year, which is still a pretty solid bump.

Finally, the valuation is pretty cheap, too. Analysts expect TD to earn $6.90 per share next year. The stock is at $73.50 today, putting shares at just over 10 times forward earnings. TD tends to trade closer to 12 times earnings.

The bottom line

TD Bank has it all. It's a prominent member of the top Canadian banking cartel, getting to enjoy all the advantages that come from that. U.S. operations continue to chug forward.

Ancillary businesses like wealth management and capital markets keep growing at a nice pace. And a little weakness in the core banking division has created a nice buying opportunity.

This is a stock I plan to hold for a very long time, averaging in whenever shares decline. Buying a great stock on the dip is an incredibly simple technique that works. That's why I do it, and would suggest to other investors to do the same.

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