Is February a Good Month to Buy Toronto-Dominion Bank (TSX:TD) Stock?

Description

It's been quite a bumpy ride for investors in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock. Canada's second-largest lender has been unable to hold its gains in many rallies during the year, showing the uncertain environment in which stocks tied to economic growth are trading.

Is this going to be a trading pattern in 2020? Indications are that Canada's largest banks will continue to face pressure, as the Canadian economy shows signs of weakness. The Bank of Canada, in its recent outlook, said the door is open to cut interest rates if the current economic slowdown persists.

The more negative outlook shows the downturn in domestic data since the end of last year will keep bond yields low, depriving banks to improve their margins on products such as mortgages and credit card loans.

On the earnings, some lenders are also pressured as they increase provisions for bad loans. In the latest quarter, TD Bank was affected by a $154 million charge. Earnings at TD Bank fell 3.5% to $2.86 billion, with adjusted earnings of $1.59 a share missing the $1.73 average estimate of analysts.

Successful bet

But despite this temporary uncertainty about the Canadian economy and its impact on lenders who thrive on lending money to consumers, investing in bank stocks over the long run has been a successful bet for investors. TD has a long history of rewarding investors, and the lender has made its intentions public about future dividend hikes.

Among the top five Canadian banks, TD has a very attractive dividend policy, supported by strong growth momentum, and a significant retail banking operation in the United States. You may be surprised to know that TD has more retail branches in the U.S. than in Canada, with a network that stretches from Maine to Florida.

Overall, TD roughly generates about 30% of its net income from U.S. retail operations. The bank also has a 42% ownership stake in T**D Ameritrade** with a fast-expanding credit card portfolio.

After a 10.4% increase in its payout in February, income investors in TD stock now earn a $0.74-a-share quarterly dividend, which translates into a 4% yield on yearly basis.

The bank is forecast to grow its dividend payout between 7% and 10% each year going forward — an impressive growth rate at a time when the 10-year government note is yielding less than 2%.

Trading at $74.02, TD stock has delivered about 140% in total returns during the past decade, despite all the negative developments related to global trade, Canada's energy downturn, and the financial crisis of 2008.

Bottom line

No matter which direction the economy goes, Canadian banks have rarely stopped sending dividend cheques to investors. Investing in top-quality dividend-growth stocks is a proven way to create wealth. The companies that reward their investors with higher payouts each year offer you a means to multiply your wealth without taking too much risk. This investing strategy is particularly good for long-term investors looking to build their retirement income.

CATEGORY

1. Bank Stocks
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Date
2025/08/25
Date Created
2020/01/30
Author
hanwar