TFSA Pension: A Cheap Canadian Dividend Champion to Start a Self-Directed Retirement Portfolio

Description

Stock markets are finally giving TFSA investors an opportunity to buy top-quality **TSX Index** dividend stocks at reasonable prices.

What's going on?

Fears connected to the potential economic impact of the coronavirus outbreak triggered a massive sell-off. Volatility remains, with the markets making large daily percentage moves in either direction, as bargain hunters scoop up cheap shares and profit takers seek to lock in gains generated over the past few years. The gyrations are expected to continue, as any significant news from impacted countries and central banks can sway market sentiment.

Let's take a look at one Canadian market leader that appears oversold right now and might be an attractive dividend pick to start a TFSA retirement fund.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is currently trading at $68 per share compared to nearly $76 in February. The plunge is primarily due to the broad-based retreat in the TSX Index, but some company-specific news also impacted the stock price.

TD reported fiscal Q1 2020 earnings that came in weaker than analysts expected. This doesn't mean TD had a bad quarter; it just didn't do as well as the market had anticipated. In fact, the bank had adjusted net income of $3 billion for the three-month period. On a per-share basis, the adjusted earnings rose 6% compared to the same quarter in 2019.

TD remains well capitalized with a CET1 ratio of 11.7%. This means the bank has adequate capital to ride out some rough economic times. The bank made it through the Great Recession in good shape,so any potential trouble that might be on the horizon should be manageable for Canada's second-largest bank.

The board is apparently comfortable with the revenue and earnings outlook. TD just raised the quarterly dividend by $0.05 per share, representing a 7% increase. The company has hiked the payout by a compound annual rate of about 10% over the past 20 years.

The new distribution provides a yield of 4.7%.

Risks

Falling interest rates in the United States contributed to the weak results in the latest quarter. The U.S. Federal Reserve announced another rate cut this week, so TD could see additional pressure on net interest margins in the American operations.

On the positive side, falling bond yields and lower interest rates allow TD to offer cheaper rates on mortgages. This will enable more people to enter the housing market and should help existing mortgage holders renew at better rates. The result would be lower defaults. That's important if the economy rolls over and unemployment levels start to move higher.

Should you buy TD stock right now?

TD is trading at 10.3 times trailing earnings. That's cheap for a high-quality bank that generates significant profits. Additional downside might be on the way, but investors with a buy-and-hold strategy might want to start adding TD stock to their TFSA pension funds.

The dividend pays a very attractive yield right now, and the payout should be safe, even if the economic situation in Canada and the United States gets a bit ugly in the near term.

A quick look at the long-term chart of TD's stock price suggests that buying the shares on a meaningful pullback can deliver strong returns for patient investors.

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