Forget Air Canada (TSX:AC): I'm Buying TD Bank (TSX:TD) for a Bounce

Description

Air Canada has faced an unprecedented decline because of the coronavirus pandemic.

With a COVID-19 treatment that's shown tremendous promise, stocks are back in rally mode again. But let's not forget that we're bound to fall into a recession after this whole ordeal is over with. With the massive uncertainty surrounding the re-opening of the economy and the lift-off of shuttered airline routes, it's foolish (that's a lower-case *f*) not to expect more turbulence from the airline stocks going into year-end.

Instead of going all-in on Air Canada, which I see as a play on when the coronavirus will die, investors should seek to improve the risk/reward trade-off by balancing both reward *and* risk instead of seeking to maximize potential rewards at the cost of any magnitude of risk.

Rare opportunity to buy TD Bank stock while it sports a 6% dividend yield

Without further ado, consider the **TD Bank** (TSX:TD)(NYSE:TD), which I see as having a better risk/reward trade-off at today's valuations. While TD Bank stock will be a roller-coaster ride like shares of Air Canada, I'm comforted by the fact that I'll continue to be paid a large, well-covered dividend (currently yielding 6%) while waiting for the big sustained bounce on the back of the new bull market.

TD Bank and the big banks, like the airlines, are in turmoil, as loans continue souring across the board amid the economic damage caused by the coronavirus. Bank stocks have fallen much harder than the broader indices, including the **TSX Index**, due to their exposure to loans provided to small- and medium-sized businesses that are in much worse shape relative to the mega-cap behemoths.

Every time a crisis hits, the banks lead the downward charge, as good loans suddenly go bad. And that's caused many investors to question whether the recent rout in the banks is a buyable one given the extent of the economic damage. To make matters worse, Canadian banks were already in a cyclical credit downturn prior to the one-two punch of the pandemic and the tanking of WCS below $5, which put many small businesses and Canadian energy firms in severe financial distress.

The big banks have made it through past crises while keeping their dividends intact.

But this time is different. It's a series of very unfortunate black swan events (coronavirus and the oil rout) that have caused the perfect storm to hit the big banks. If worse comes to worst, we could see some established financial institutions cut their dividends, but I just don't see the big banks, especially TD Bank, putting an end to their dividend-growth streaks due to an issue that could prove to be temporary in nature.

As TD Bank and its peers extend easy interest-free loans to small businesses affected by the coronavirus pandemic, I expect a V-shaped recovery is a growing possibility, rather than a slew of defaults and an uncontrollable surge in provisioning.

Foolish takeaway

The banks are facing immense pressure, and there's a real possibility that they could continue declining rapidly over the next few months. As such, investors should have a preference for conservative loan books over just "low traditional valuation metrics."

TD Bank is a stellar long-term performer that can better hold its own than most of its peers, so investors should feel comfortable reaching for the bank's 6% yield at this most critical juncture while shares trade at 1.2 times book. TD Bank stock is also the cheapest it's been since the Financial Crisis. And like after the Financial Crisis, I expect the bounce back to be just as, if not more, pronounced when the tides inevitably turn.

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