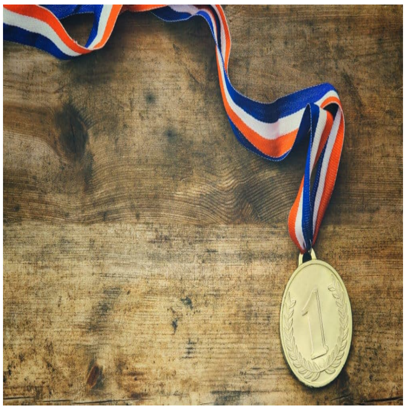

Toronto-Dominion Bank (TSX:TD) Is a Top Stock to Buy for Your TFSA

Description

For investors using their Tax-Free Savings Accounts (TFSAs) to create wealth and savings, it's very important to identify top dividend stocks. This strategy helps build your wealth slowly without adding too much risk to your portfolio.

Once you have decided to invest for the long term, the next big challenge is to find such stocks that are consistent in rewarding investors in both good and bad times.

If you're one such TFSA investor, then I strongly recommend buying a couple of Canada's top banking stocks. Canadian banks have been very consistent in rewarding investors through steadily growing dividends.

Their main strength comes from their strong local presence, their ability to grow south of the border, and operating in a regulatory environment that's among the best in the developed world.

Risks to Canadian banks

For some investors, that bullish case about Canada's top banking stocks has become questionable since the COVID-19-induced recession hit our economy. These investors are arguing that this is not the good time for TFSA investors to buy bank stocks, as they are the first to feel the negative impact of the economic slowdown.

That argument certainly carries some weight. Some of the top borrowers of these banks, such as energy and real estate companies, are under pressure after the sudden halt in the economic activity. If that situation persists, these lenders will face increasing defaults, debt restructuring, and slowing lending activity.

The other threat for these top banking stocks comes from a persistently low interest rate environment. In that situation, banks get a big hit on their lending portfolios, as margins get squeezed.

Despite these risks, I still favour investing in the top banking stocks, as these lenders have much stronger balance sheets and much better portfolios to ride through this difficult time. The 2008 Financial Crisis is a big example of this resilience when the Canadian banking system emerged unscathed from that Great Recession.

Why TD Bank?

From the top six Canadian banks, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is one of my top dividend stocks to buy in this space. The lender has an excellent payout policy, distributing between 40% and 50% of income in dividends each year. In addition, TD has a great diversification business with its wide presence in the U.S.

It generates about 30% of its net income from the U.S. retail operations. The bank also has a 42% ownership stake in TD Ameritrade with a fast-expanding credit card portfolio. Following its aggressive growth in the U.S. during the past decade, TD now runs more branches south of the border than it does in Canada.

After a 20% plunge in TD Bank stock value this year, the lender has become quite attractive to buy for TFSA investors. After the decline, its stock now yields more than 5%, which is one of the best yields in recent times. 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 yields less than 1% .

Bottom line

For a TFSA portfolio, TD Bank is a great stock to hold over the long run. It will slowly regain its lost ground, as the economy recovers from this recession and will help generate strong income for your portfolio.

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