Recession Risk: Is TD Bank (TSX:TD) Still a Great Buy?

Description

For years, I have been pumping the Canadian banks as great long-term investments. These stocks have been excellent holdings and dividend payers for years. The recent concerns have driven down the prices of these core holdings to the point where they were screaming buys.

It's a funny thing seeing terrible earnings and then seeing the stocks shoot up considerably. That's the way the market works, after all. It's not about how good or bad the earnings are, but rather whether or not the market beats expectations. Uncertainty is the real enemy of stocks. Once we know something, we are good to buy in once again.

A diversified Canadian bank

TD Bank (TSX:TD)(NYSE:TD) is one of the great Canadian banks. It has operations in Canada and the United States, with its earnings largely equal in each of the two countries. TD is a quality business that makes money both in traditional retail banking as well as from investing. This is a Canadian institution worth owning.

The downside

The overhang on the stock comes from all the unknowns facing the economy. After all, millions of job losses and a weakened economic outlook is not great for banks, which profit from strength.

Falling home prices and failing businesses can put a dent in their loan books, so even a great bank like TD will feel the pressure if the economy goes down.

Even now, the potential impact of economic damage is being felt. TD reported that its net profit was cut in half due to loan loss provisions that grew to $3.2 billion in Q1 2020. Net income sank 52% year over year.

Income and business strength

The only time to get a good deal on a stock, unfortunately, is to buy shares when things are looking dire. There have not been many more dire outlooks than that this one, so bank stocks are still feeling pretty unloved. Fortunately, that also leaves us with some pretty attractive metrics.

The dividend on TD is still over 5%, after all, which is historically quite high. This is a dividend that was frequently raised twice a year over the last decade, so the bank is quite comfortable paying the yield.

It has never cut its dividend, so I suspect it would try very hard to maintain its track record. The dividend was maintained for this quarter, so investors can breathe easily for now.

The bottom line

The real question is, have we missed the boat on what was a very good buying opportunity
? Are stocks moving upward once again? Honestly, the answer is so ridiculously simple it is almost embarrassing to say. Nobody knows. The market could crash tomorrow or it could continue its march higher. Trying to guess what the market will do is a terrible strategy.

What you should be asking yourself is, should I buy shares of TD bank today? I suppose the answer is the same as it was yesterday. You certainly should.

The dividend is about 5% even after the increase in the share price and the business remains strong. This is a great institution that is worth owning. Take advantage of the still-low share price if you have not done so already.

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