TD Bank Stock: Solid Risk/Reward for Passive-Income Investors

Description

Indeed, 2020 was the year where it paid off to ignore the valuation playbook and just buy what most others have been bidding up. Chasing momentum can result in quick gains, but in 2021, the tides began to turn, and those who chased were starting to feel a bit of pain, as momentum reversed on itself. The selling pressure dealt to particular sectors, most notably tech, was so pronounced that even dip buyers were punished harshly!

Indeed, if you can't value it, it's probably a good idea to take a raincheck, especially in the face of strong negative momentum. Catching a falling knife is never easy. In fact, you can expect to get hurt. That said, investors who have a firm understanding of a business and its plan to grow earnings at some point over the near future shouldn't shy away from buying dips if they can evaluate a stock and conclude its intrinsic value is depressed.

For most investors, I'd argue income stocks with favourable risk/rewards are the way to go.

What do I mean by favourable risk/reward?

I mean maximizing returns relative to risks you'll need to bear as an investor. In 2020, when tech stocks surged into the back end of the year, I think many market beginners forgot about the "risk" side of the risk/reward scenario. Undoubtedly, many beginners got punished. Sadly, many may not be inclined to return to the unforgiving world of investing.

Undoubtedly, the smartest minds on Wall Street focus on both reward and risk. Arguably, a slight focus on downside risks may be a more prudent strategy to building substantial wealth over a long-term horizon. With a lot of risks up ahead, I think it's wise to weigh risk with reward in an attempt to outdo the broader markets, which may very well be destined for sub-par returns versus last year. Why? Tech stocks could continue to drag down the Nasdaq 100, and if the damage is severe, the S&P 500 could feel it, too. Remember, timing the Fed's moves is never a good idea. The Fed could hike anywhere from two to four or even five times this year.

Instead of timing markets or rate hikes, consider focusing on the longer term. Rates are going up. They could go way up over the next five years. What will benefit? Financials like **TD Bank** (TSX:TD)(NYSE:TD).

TD Bank: The best buy as rates rise?

TD Bank is a premier player in Canada's banking scene. With a solid presence south of the border, TD Bank is an intriguing play, as it looks to improve its net interest margins alongside a higher-rate environment. Further, if the economy is strong enough to support faster rate hikes, TD is bound to experience some sort of greater loan growth.

Indeed, the bank is incredibly well run, and it's going on the hunt for an acquisition in the United States. If it can't find the right deal at the right price, management said it'd likely beef up its share buybacks. Either way, TD looks like a dividend stud at a ridiculously low valuation. Sure, the stock has had its run, but amid its rally, the stock has become objectively cheaper from a price-to-earnings basis! I think we're at the cusp of a multi-year bull market in banks. For that reason, I'd look to be a buyer of the banks, especially TD.

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