The 1 TSX Stock I'd Go All-In On

Description

In investing, it pays to diversify. The more baskets you spread your eggs across, the less likely it is that one basket will break all the eggs. Some investors have done well with concentrated portfolios (i.e. portfolios with a few stocks), but most of them are professionals who research investments full time. For the average retail investor, diversification is the way to go.

Nevertheless, it's a fun experiment to think about which stock you would buy if you could buy just one. There is "diversification" within stocks just like there is diversification among them. For example, a large conglomerate may have dozens of wholly owned businesses and hundreds of stocks in its portfolio, while another company might own a single deli in New York State. When you look at things this way, you'll see that concentrated portfolios of stocks aren't always as risky as they appear. If a company has a lot of bets under the hood, it may have several "baskets" unto itself. In this article I will explore the one TSX stock I'd buy if I could only buy just one.

TD Bank

The **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is the TSX stock I'd buy if I could only buy one. I'm putting my money where my mouth is when I say that because it is in fact my only Canadian stock right now: my TSX portfolio consists of TD and a TSX 60 Index Fund. The international portion of my portfolio is more diversified.

There are several reasons I like TD bank stock. First, it's cheap. Second, it's growing. Third, it has a big acquisition coming up that will add to its earnings power. Taken together, these factors suggest that TD will be paying big dividends in the future.

TD is cheap

TD Bank stock is very cheap compared with the value of the underlying assets and cash flows. At today's prices, it trades at just 9.4 times earnings and 1.5 times book value (book value means assets minus liabilities). This means that the stock costs just 50% more than the value of what it owns. Also, it can earn back the value of all of its shares in 9.4 years. Compared with most stocks these days, it's quite inexpensive.

TD is growing

Many stocks are cheap, but not all cheap stocks have growth. TD does. In its most recent quarter, TD's revenue declined modestly, but it managed to pull off 6.6% growth in adjusted earnings. TD is the largest shareholder of **Charles Schwab,** which is doing great this year, leading to a big boost in equity earnings for TD itself. Additionally, TD's U.S. retail business saw an 11% profit jump in the quarter.

TD has a big acquisition coming up

A final reason I like TD is because it has a huge and potentially lucrative deal coming up. TD is set to complete its acquisition of the U.S. bank **First Horizon**, which has US$89 billion in assets. Upon closing the deal, TD will incorporate First Horizon's assets and earnings with its own. First Horizon recently beat analyst expectations by a wide margin, as its third quarter release showed impressive growth in net interest income. If the deal closes, TD will be getting a piece of those growing profits very soon.

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Date
2025/06/27
Date Created
2022/11/02
Author
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