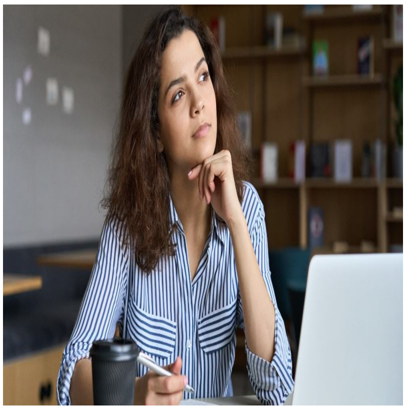

Better Buy: TD Bank or the Entire TSX?

Description

Index investing, which involves replicating the returns of a benchmark index, grew very popular following the 2007-2008 financial crisis. The Great Recession sparked an avalanche of quantitative easing and saw central banks drop interest rates to historic levels. In this environment, benchmark indexes consistently outperformed managed funds. The COVID-19 pandemic and the soaring inflation that has followed it has forced central banks to reverse this strategy and pursue aggressive interest rate tightening. Index investing may not remain a sure-fire investment strategy.

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Today, I want to discuss whether **TD Bank** (TSX:TD) is a better buy over the entire **S&P/TSX Composite Index**. Let's jump in.

How have these entities performed in 2022?

TD Bank is a bona fide blue-chip stock that has also benefited from the friendly environment for the financial sector over the past 15 years. This is also the second-largest Canadian bank by market cap, right behind **Royal Bank**. Shares of TD Bank have dropped 8.6% in 2022 as of close on November 22. That has pushed this top bank stock into negative territory in the year-over-year period.

Investors looking to track the performance of the entire TSX Index have **BMO S&P/TSX Composite Index ETF** (TSX:ZCN) as an option to snatch up. This exchange-traded fund (ETF) is designed to replicate the performance of the S&P/TSX Composite Index. Shares of this ETF have dropped 4.6% in the year-to-date period. It is down 5.8% from the same time in 2021.

Here's why I'm bullish on TD Bank ahead of earnings

This top bank is set to unveil its fourth-quarter and full-year fiscal 2022 earnings on the afternoon of December 1, 2022. In the first nine months of 2022, TD Bank delivered adjusted net income of $11.3 billion, or $6.18 per diluted share — up from $10.7 billion, or $5.83 per diluted share, in the previous year. The bank posted net income growth of 6% in its Canadian Retail segment in the third quarter and net income growth of 11% in its sizable U.S. Retail Bank segment.

Overall, the third quarter and first nine months were solid for a bank that has faced significant headwinds in the domestic and global economy. TD Bank is well diversified and offers investors massive exposure to the U.S. retail banking space.

What about the broader TSX?

The TSX Index is in the red in the year-to-date period. It had a marvelous start to the year, largely on the back of the red-hot energy sector. The energy sector benefited from soaring oil and gas prices that were bolstered by a big rebound in demand following the COVID-19 pandemic as well as the impacts of the Russia-Ukraine war. However, that momentum ground to a halt in the summer season as the Organization of the Petroleum Exporting Countries ramped up production.

The energy sector is a risky bet, as the threat of an economic downturn looms large in late 2022 and early 2023. That means that the energy-heavy TSX could also be exposed to these same risks going forward.

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TD Bank vs. TSX: Which should you buy today?

Despite recent trends, I have never strayed away from active investing. That is why I'm going with TD Bank as my pick today. Indeed, a top blue-chip stock like TD Bank offers many of the same benefits that investors seek from tracking a benchmark. TD Bank is incredibly well diversified and offers very attractive balance for less-experienced investors. Shares of this bank stock currently possess a favourable price-to-earnings ratio of 11. Moreover, it offers a quarterly dividend of $0.89 per share. That represents a 3.9% yield.

CATEGORY

1. Investing

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