TFSA Income Investors: This High-Quality ~5.8% Yielder Is on Sale!

Description

Now is a great time to be thinking about what you're going to do with your next $5,500 contribution, which you'll be able to add on January 1, 2018. The markets have been roaring this year, so some TFSA investors may be wary of adding more growth stocks. It may be a smart move to consider an undervalued high-income-paying REIT to pad the volatility that could be in the cards for 2018.

A young investor with the ambitions of amassing a $1 million TFSA should stick with growth stocks, but that doesn't mean all capital should be allocated in such volatile securities. I believe everyone, including the most aggressive of growth investors, should have a defensive portion to their portfolio with some cash on the sidelines to take advantage of a market-wide sell-off, which could always be on the horizon.

Corrections happen, and although the bull market has many investors feeling euphoric, it's important to have at least a portion of your portfolio allocated using a "preservation of capital" approach. That means buying high-dividend-paying stocks that will dampen volatility from the next correction and provide you with income that you could either reinvest or use to grow your cash position. With ample cash on the sidelines, you can take advantage of "sales" come the next sell-off!

SmartCentres Real Estate Investment Trst (TSX:SRU.UN) is an example of a solid, high dividend stock that many investors may wish to consider adding to their TFSAs come the new year. The trust has an attractive 5.75% distribution yield at the time of writing and is trading at a slight discount to its intrinsic value.

The stock currently trades at a 13.6 price-to-earnings multiple, a 1.2 price-to-book multiple, a 6.4 price-to-sales multiple, and a 14.3 price-to-cash flow multiple, all of which are lower than the company's five-year historical average multiples of 14.9, 1.3, 6.7, and 17.3, respectively.

Why is the REIT on sale?

Investors are afraid of the death of the shopping mall and the potential impact it'll have on Smart Centres. I believe these fears are overblown, since most of SmartCentre's tenants are high-quality retailers that will thrive regardless of how large e-commerce giants become.

In addition, most of its shopping centres are anchored by **Wal-Mart Stores Inc.** (NYSE:WMT), which is a strong retailer that I believe has the ability to fight off **Amazon.com, Inc.** (NASDAQ:AMZN) over the long run. You can pick up your groceries at the local Wal-Mart, get a haircut, watch a movie, grab a burger, and do some banking all at once. Wal-Mart draws customers into Smart Centres, and customers usually stick around to check out the other stores, most of which still see a lot of customer traffic, despite a preference for digital retailers.

In addition, SmartCentres is slowly diversifying away from retail real estate, so over the long run, investors really have nothing to fear but fear itself.

Bottom line

If you want a great TFSA high-income holding at a discount, it's hard to find a better value than SmartCentres. It's a high-quality gem that's been unfairly hit due to industry-wide fears. If you're a patient income investor, it may be time to start buying shares as the yield flirts with the 6% mark.

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