TFSA Investors: How You Can Profit Profoundly From Canadian Interest Rate Hikes

Description

The Bank of Canada is poised to hike rates by as much as three times this year. It's something that heavily indebted Canadians have been dreading, but realistically, it's likely that everyone should be ready for at least two hikes this year, as the labour market and economy continues to show signs of strength. Although President Trump is still poised to rip up NAFTA, all other signs are pointing to a rate-hike-heavy year.

If you're one of the heavily indebted Canadians, you should ensure that all your free cash flow should be going towards paying back your credit card debt until it's 100% eliminated. It's pretty much impossible to achieve a return that's even close to the interest rates that cards will bill you if you leave your debt to settle over a prolonged period of time, so if you've got credit card debt, it may be a wise decision to stay out of stocks for now, until your debt is reduced to more manageable levels.

If you're not one of these heavily indebted Canadians, you may want to make some adjustments to your investment portfolio to better position yourself to better deal with a rising rate environment. For retirees who are heavily exposed to Canadian REITs, here's what you need to know to adjust your portfolio effectively.

For everyone else, it may be time to trim your "runaway stocks," stocks that have grown to become a larger than the desired percentage of your portfolio; opt for financials that your portfolio may be lacking after last year's bull run for tech and growth stocks.

Red-hot growth stocks, while great for young investors, aren't the best way to play a rising interest rate environment, and if you haven't trimmed your profits in names such as **Shopify Inc.** or **Canopy Growth Corp.** yet, then it may be time to do so; otherwise, you're getting greedy, and your portfolio may not be ready to thrive in a rising interest rate environment.

Which stocks should you consider adding positions to?

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) are my two top recommendations for the long haul, as interest rates continue on their upward trajectory.

Not only will rising rates act as clear tailwinds for both the life insurance and banking industries, but these two stocks are trading at what I believe are tremendous discounts to their intrinsic values, especially when you consider their growth trajectories.

Manulife and CIBC have juicy dividend yields of 3% and 4.25%, respectively, so you can enjoy the payouts, while they grow at what I believe will be a faster rate over the next few years.

If you find that you're lacking exposure to financials, you may want to consider re-balancing to include these two gems in your TFSA retirement portfolio today, as rate hikes gradually boost the profitability of your new-found holdings.

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