



2 Stocks to Insure Your Market-Beating TFSA Income Portfolio From Rising Interest Rates

Description

Interest rates are going to be on the upward move on both sides of the border. Investors can either do some panic selling, or they can understand the environment which lies ahead, embrace it, and adapt their portfolios accordingly to profit (and hedge) other high-income positions in their TFSA portfolio.

Rising rates aren't great news for REITs, telecoms, or utilities, but if you're relying on the income, you don't need to dump all your holdings, especially since most of the securities within these sectors have already corrected with what I believe is a pessimistic tone when it comes to rising rates. As it stands right now, we're expecting Fed chair Jerome Powell to hike rates by another two times in 2018 with three more in 2019. As the evidence of inflation becomes more apparent, these hikes are pretty much a given.

On this side of the border, however, Stephen Poloz and the Bank of Canada will have a tougher time forecasting rate hikes in the foreseeable future and may have to sit back and take more of a "wait-and-see" approach. Many pundits believe interest rate hikes will be at a slower rate in Canada than the U.S. for various reasons. As such, I believe selling your REITs, telecoms, or utilities would be a very rash and unwise decision in the grander scheme of things.

The rate hikes are coming, but your income doesn't need to take a huge hit, nor do you need to realize a greater degree of risk by swapping out your conservative income securities.

Consider these two rate-sensitive insurance plays: **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) and **Great-West Lifeco Inc.** ([TSX:GWO](#)) as top picks to supplement your existing TFSA income portfolio. Both stocks are attractively valued and will treat a rising-rate environment as a breath of fresh air.

[Manulife](#)

The stock currently yields 3.7% and trades at a mere 9.2 forward times earnings. That's cheap, especially when you consider the growth potential behind the company's promising Asian segment. If

you want a rate-sensitive stock with exposure to the red-hot Asian market, Manulife is a must-own today.

Although the Asian and Canadian businesses command a top-notch ROE, the John Hancock business is a laggard and will remain a burden on Manulife's overall ROE, which is currently at an unimpressive 5.11% TTM.

Investors want John Hancock spun off or sold, but I think such a scenario is unlikely, especially considering the fact that shareholders could stand to lose a great deal of long-term value from such a deal. With that in mind, it's not too far-fetched to think that the Asian business will gradually dilute the lower-ROE U.S. business years down the road, as Manulife continues to partner with some of the biggest Asian banks.

Great-West Lifeco

For those looking for a higher yield, Great-West may be a compelling option with its ~4.73% yield, which is likely more in line with the average yield provided by an income investor's REIT, utility, or telecom portfolio.

The stock trades at a 10.8 forward P/E, a 1.6 P/B, a 0.7 P/S, and a 4.8 P/CF, all of which are lower than the company's five-year historical average multiples of 13.6, 1.9, 0.9, and 6.2, respectively.

For those looking to bolster their portfolios with a higher-ROE (10.92% TTM), higher-yield name, Great-West is a great buy.

Bottom line

Both stocks are fantastic buys today, but if I had to choose one, it'd be Manulife because I'm a raging bull on the company's Asian expedition, which I believe will be a major long-term driver of the stock. If you don't mind the lower yield, you stand to experience what I believe will be superior growth in the grander scheme of things.

Although I personally prefer Manulife, investors should seriously consider initiating a position in both stocks while they're cheap.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:GWO (Great-West Lifeco Inc.)

3. TSX:MFC (Manulife Financial Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/07/17

Date Created

2018/04/03

Author

joefrenette

default watermark

default watermark