3 Momentum Stocks Perfect for a TFSA

Description

The one thing you absolutely want to avoid when it comes to investing within tax-deferred RRSPs or TFSAs is capital losses.

That's because you can't use them to offset capital gains like you can in taxable accounts. So, your most aggressive investments, such as money-losing tech stocks, ought to be held outside your tax-advantaged accounts.

That said, it doesn't mean you should turn your nose up at high-flying momentum stocks for your TFSA, because for many high-net-worth investors who've maxed out their annual RRSP contributions, it represents an additional $5,500 per year in potential retirement savings that can be put to use for future tax-free withdrawal in your retirement years.

As they say, never look a gift horse in the mouth.

Two of the best-performing stocks in 2018 of Canadian-based companies are **Lululemon Athletica Inc.** (NASDAQ:LULU) and **BRP Inc.** (TSX:DOO). A third, **AutoCanada Inc.** (TSX:ACQ) is coming on strong, up 10% in the past month.

Here's why I believe all three stocks fit nicely in your TFSA.

Lululemon

The apparel brand is arguably the greatest retail export in Canadian corporate history. Most Canadian companies fail miserably when they expand into the U.S. Not Lululemon. It's thrived in the backyard of large-cap behemoths **Nike Inc.** and **VF Corporation.**

On April 16, Lululemon announced PJ Guido as its new CFO, who just happens to have spent the last seven years at VF, one of the company's biggest competitors. Guido, a specialist at capital-allocation strategies, will be critical to Lululemon's international expansion outside North America.

Yet to announce who the new CEO is, executive chairman Glenn Murphy is taking his time to ensure it gets the right person. *The Toronto Star* recently named five people it felt were potential candidates, including Stefan Larsson, who I mentioned in my most recent piece on the company.

The one name the *Star* forgot: Calvin McDonald, the president of Sephora North America — a Canadian and a one-time CEO of Sears Canada. He would make a great CEO.

Whoever is hired, $100 is a formality.

BRP has a key ingredient going for it

Back on March 7, I'd recommended investors buy DOO stock given how oversold it was; it's up 15%

since then and at the early stages of what I feel will be another leg up to $60 and higher.

It's got a product line that's second to none, it has annual revenues of close to $5 billion, and it's growing at almost double digits year over year. It has normalized net income growth of more than 20%, and it's grabbing side-by-side market share by the fistful.

As I said in my most recent article about BRP, the Bombardier and Beaudoin families, who control the company's voting stock, have made a boatload of money since taking the company public in 2013.

I expect they'll continue to benefit from consumers looking for experiences rather than buying the next great "it" dress.

AutoCanada's latest acquisition a doozy

It's hard to believe ACQ once traded above $90. It did — in June 2014. Back then it had a market cap of $1.1 billion, almost double where it sits today.

But here's what's so interesting about this.

In 2014, ACQ had revenue of $2.2 billion, operating margins of 3.7%, and free cash flow of $48 million. In 2017, it had revenue of $3.1 billion, operating margins of 3%, and free cash flow of $54 billion.

From a valuation perspective, AutoCanada had a free cash flow yield in 2014 of 3.8; today, it is 6.4%. It's not quite in value territory, but it's certainly at fair value at the moment.

That's especially true when you consider AutoCanada just made a transformational acquisition in March that takes it deep into the U.S. market by purchasing the Grossinger Auto Group for $110 million, a collection of 14 dealerships in the Chicago area.

The acquisition will add 17% to the company's annual revenue in 2019 and $0.15 to earnings.

Right now, it's firing on all cylinders. Its stock should be selling for $40-50 a share. It might not be a momentum stock like LULU or DOO at the moment, but it's coming on strong.

Don't miss out on the drive to $90.

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TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)
2. TSX:ACQ (AutoCanada Inc.)
3. TSX:DOO (BRP Inc.)

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