2 Overlooked Stocks to Grow the Wealth in Your TFSA/RRSP

Description

When it comes to registered investment vehicles like the TFSA or RRSP, it's essential that you invest in businesses that you'd feel comfortable owning for decades at a time. For best results over the long term, both TFSA and RRSP investors should adopt one of Warren Buffett's top tips for stock pickers: "If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."

As you're probably aware, funds within a registered account like a TFSA are worth considerably more than the same funds in a non-registered account when you consider the advantages that allow for long-term tax-free compounding. A dollar lost in a TFSA hurts way more than it does in a non-registered account due to the tax-loss selling advantage that's surrendered with the TFSA. If you sell a stock at a loss in a TFSA, you're not going to be able to offset that loss with a gain elsewhere in your portfolio.

So, with that in mind, you should look keep the speculative marijuana stocks, the overly cyclical securities, and the absurdly priced "sexy growth" plays. Keep it simple and strive to get a quality piece of merchandise at a fair (or discounted) valuation, instead of trying to hit it rich with what's deemed as hot at a given point in time. Now, that doesn't mean you should avoid high growth altogether. Rather, you should always consider the price you're paying relative to the magnitude of growth that you expect to obtain over a prolonged period of time.

Consider the following blue-chip darlings as top candidates for your TFSA (or RRSP, if you've decided to contribute this year).

Canadian Pacific Railway (TSX:CP)(NYSE:CP)

CP Rail, the second-largest and second-best railroad in Canada, has come a long way since the dark days of Hunter Harrison's departure.

Although CP Rail is unlikely to return to the magnitude of growth that was experienced during the Harrison era, the company still has the potential to deliver above-average returns to investors over the long haul. More recently, the stock has started picking up traction again, and while there's still a lot of work to do to get the operating ratio back up to levels that are deemed impressive, investors have to be content with the company's trajectory and the stock's modest price tag.

The stock trades at just 16 times forward earnings, which is not bad when you consider the width of CP Rail's moat, and the potential for a top-line growth re-acceleration as Canadian freight volumes look to surge.

Industrial Alliance (TSX:IAG)

With a mere $5.4 billion market cap, IA is a smaller player in the Canadian insurance scene. With a below-average dividend yield (currently at 3.3%) relative to the industry average, it's not a mystery as to why most investors have taken a pass on the name, even if it was brought to their attention.

IA has a robust core insurance business with life and health insurance products in addition to a solid wealth management business. Although the non-bank financials aren't the best to get caught holding in an economic slowdown (or downturn), investors should look at IA stock's ridiculously low, single-digit P/E.

IA is by no means a sub-par insurance player. It may even be one of the better ones out there when you consider the outperformance over industry peers during times of crisis. And although the dividend is less bountiful, the 8.4 forward P/E has to have value-conscious investors licking their chops.

Foolish takeaway

Don't strive to "get rich quickly" when it comes to your registered accounts. Look to grow your wealth while minimizing your downside risk because a loss in a TFSA or RRSP is akin to taking a one-two punch to the gut.

Stay hungry. Stay Foolish.

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2. TSX:CP (Canadian Pacific Railway)
3. TSX:IAG (iA Financial Corporation Inc.)

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