TFSA Investors: 2 Stocks to Include and 1 to Avoid

Description

If you haven't yet made use of your TFSA contribution for this year, it is probably time to get started. After all, the TFSA is one of the best, most versatile wealth-building accounts available today. It is an excellent emergency fund since money can be withdrawn without penalty and be replaced the following year. The contribution room has continued to increase since the registered account was instituted. As of 2019, investors can add an additional $6,000, up from $5,500 last year.

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But which stocks should you put into the account? After all, your contribution room is finite. Losses in your TFSA are gone forever, so you need to be careful what types of stocks you buy.

INCLUDE: Utility stocks

Utility companies are excellent cash generators with steadily growing dividends. Check out the long-term returns of companies like **Algonquin Power** (TSX:AQN)(NYSE:AQN). Since inception, the stock's chart has done nothing other than move up and to the right, more than doubling over the past 10 years.

The renewable energy company's dividend has done the same, increasing steadily over time. Last May, Algonquin increased its dividend by 10%. If its earnings also continue to grow and adjusted earnings per share increased 16% over its 2017 earnings, the company should have no issue continuing to grow this payout over time.

INCLUDE: Large-cap, non-dividend U.S. tech

Why non-dividend? The TFSA is a great place to shelter dividends and capital gains tax-free, but they do not shelter U.S. dividends from dividend-paying stocks. This means that you want large, stable, and growing companies to be in your TFSA.

Companies like **Alphabet** (NASDAQ:GOOG)(NASDAQ:GOOGL) are in this category. The fact that it does not have a dividend is a benefit in this case. With its total revenue rising 22% year over year, a great balance sheet, and a huge capital-investment programs in its potentially lucrative “Other Bets” category, this is still a growth stock to own.

AVOID: Cannabis stocks

While I’m sure that there are plenty of investors who got in early and made a potful of money from the sector, the truth is that it is highly unlikely that these stocks will continue to deliver over the long term. This blanket statement could apply to any of the stocks in the sector. These companies are too volatile, their earnings too small, and they completely lack dividends.

Companies like **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) might seem like a great investment has gone up significantly in recent years, but investors should beware. Revenue may have risen 83% in the first quarter of 2019 year over year, which sounds great, but earnings were negative over the same period. Besides, revenue is still too low to justify the $13.8 billion market capitalization. This company is very overpriced, and it’s a situation indicative of all companies in the space.

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Be strategic with your TFSA

Of course, you could be lucky and hit the big time in your TFSA. One well-placed marijuana stock could push your holdings sky high. But even then, you have to be lucky when you sell or you could lose it all. So, if I were you, I would stick to steady dividend growers and stable stocks and hold them for the long run.

CATEGORY

1. Cannabis Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners
5. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:GOOG (Alphabet)
3. NASDAQ:GOOGL (Alphabet Inc.)
4. NYSE:AQN (Algonquin Power & Utilities Corp.)
5. TSX:ACB (Aurora Cannabis)
6. TSX:AQN (Algonquin Power & Utilities Corp.)

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