2 Great Stocks I'd Buy for My TFSA With an Extra $6,000

Description

I firmly believe Canadians should make TFSAs their retirement vehicle of choice. RRSPs should be largely ignored until all TFSA contribution room is filled up.

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There's one simple reason why: taxes. An RRSP must be wound up at some point and assets must be withdrawn. This comes with a tax bill. It could end up being a pretty big tax bill if you've contributed a large amount over the years.

TFSAs don't come with that disadvantage. All withdrawals from the account are made on a tax-free basis, and the account can continue to compound indefinitely, even during your golden years. What a powerful combination.

Many younger investors aim to accumulate $1 million in their TFSAs, which I think is a pretty achievable goal. That might not be enough for a comfortable retirement in 30 years, but it'll be a great start.

Here are two great stocks to get you started — companies I'd strongly consider buying if I were making a TFSA contribution today.

Fairfax Financial

Prem Watsa, the man in charge of **Fairfax Financial Holdings** (TSX:FFH), knows a thing or two about value investing. He's often compared to Warren Buffett, the greatest investor of all time.

From 1985 to the end of 2018, which marks Watsa's time as CEO, Fairfax has grown its book value per share by 18.7% annually. That's remarkable growth, but it might be a little understated since the company feels book value underestimates the true value of its shares today.

The business is simple, yet powerful. Fairfax owns several large insurance companies, which operate around the world. These companies generate float — insurance premiums that must be put aside to pay out potential future claims. This capital is invested, and Fairfax can make a profit on this cash before paying it back out. The gains are then reinvested, creating a powerful compounding effect.

And investors can get in today at a pretty reasonable price. Fairfax trades at just 1.1 times its stated book value, as shares have slid lately to $608 each. The stock also pays a US$10-per-share annual dividend, giving it a yield of 2.2%.

Great Canadian Gaming

Great Canadian Gaming (TSX:GC) is Canada's largest casino operator. It boasts 28 casinos across British Columbia, Ontario, Nova Scotia, New Brunswick, and into Washington state and has a total of more than 16,000 slot machines, 300 table games, 80 restaurants, and some 500 hotel rooms. Investors should note the company plans to sell its U.S. operations.

The company recently made a big acquisition, gobbling up an interest in various Ontario-based casinos. This increased revenue substantially, with the top line essentially doubling between 2017 and 2018. As part of the acquisition, the company has plans to expand operations at several of these casinos, doing things like expanding the gaming floor and building more restaurants and even hotels for some properties.

It's a great growth story that just happens to be trading at a bargain price. Shares are just over $42 each as I type this, which is close to a 52-week low. The stock trades at approximately 16 times forward earnings, which is a bargain for such a high-quality business.

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The company doesn't pay a dividend, but it has aggressively returned capital to shareholders in the past by buying back shares. From 2010 to 2018, the company repurchased approximately 20 million shares, dropping the total share count from 83 million to 63 million.

The bottom line

Both Fairfax Financial and Great Canadian Gaming are two perfect stocks to tuck into your TFSA and hold for a very long time. And they're both on sale today. Go ahead, buy these two proven compounders. Your future self will thank you.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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