What to Do With Your $6,000 TFSA Contribution Room

Description

If you're one of the many Canadians who still, for some reason, hasn't opened a Tax-Free Savings Account (TFSA), today is the day.

It's remarkable the number of Canadians out there who still aren't taking advantage of this prime opportunity to turn their savings into simple gains, tax free. Since the program launched back in 2009, Canadians have been given an increase in contribution room year upon year for a total in 2019 of $63,500.

For those of us who have already opened a TFSA, that means you have an extra $6,000 this year to invest. And as always, any gains are yours to keep. There are no taxes and no fees — it's just yours, making it even more ideal than an RRSP.

The hard part, however, is what stocks to choose. And if you're just getting started, it can be completely overwhelming. So, if you're looking to buy and forget it, today I would recommend you choose **Royal Bank of Canada** (TSX:RY)(NYSE:RY) as the perfect stock to bring in long-term gains and a stable dividend yield that should continue to increase for years to come.

A big name

Royal Bank is one of Canada's top two largest banks of the Big Six banks in the country. That big footprint also brings in big numbers, with its second quarter bringing in strong results for the beginning of 2019. Royal Bank generated $4.33 billion in net income for the quarter, with earnings per share of $2.89. Those are some strong results compared to the losses being felt by some of its peers.

This amount of income means the company is free to continue reinvesting in its operations, including new digital platforms to keep it competitive and ahead of the other big banks.

U.S. presence

Another way the company has already been reinvesting is through its expansion into the United States. Royal Bank has chosen to focus on its wealth and commercial clients, which has proven to bring in strong returns on equity, leading it to a top market position.

This exposure to both Canadian and American economies should be a considerable bonus for investors, who can relax even when the Canadian dollar is low, knowing there is a strong U.S. dollar to fall back on.

Growth

Shares have grown steadily for this stock since the Great Recession. In the last decade, the stock has increased 125% to where it trades at the time of writing at $103.44. If we believe the stock will continue on this trajectory, that would mean an investment of $6,000 today would be worth $7,482 in the next decade.

During that time, the dividend should also steadily increase. The company has a stellar record of dividend growth, only pausing during the Great Recession. Since then, the payout has increased year over year to where it is today at 4.02%. That means that $6,000 investment would bring in annual passive income of $237.

Bottom line

As I've mentioned twice now, the Great Recession was a period of weakness of Royal Bank and all Canadian banks. However, Canadian banks also fared the best coming out of that recession compared to their counterparts around the globe. That means an investment in the top bank in Canada would protect you from another recession should one occur.

If it does: don't panic! Be patient and be thankful you have a stock that is still dishing out dividends in the meantime while you wait out the storm.

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