Revealed: The 3 Top Stocks in My TFSA

Description

I try to follow a simple investing plan in my own portfolio.

I focus on owning high-quality companies that are trading at reasonable prices. I then take a buy-and-hold approach for my investments, preferring a time horizon that can easily span years. I only sell if I see the original investment thesis break down.

How does one identify a good investment opportunity, anyway? Some of the things I look for is an obvious moat protecting the company from competition, high returns on invested capital, growth potential, a history of consistent dividends, and good management teams. I then look to get in at a reasonable price.

Perhaps it's easier if I just show readers what I own. Here are the top three positions in my TFSA, stocks that represent a significant portion of my wealth.

Genworth

The largest position in my TFSA — and one of the largest positions in my portfolio, period — is **Genworth MI Canada** (TSX:MIC), which provides mortgage default insurance to borrowers who don't meet the minimum down payment requirement of 20%.

Genworth is a wonderful business. It pockets premiums of up to 4% of the value of the home, which is financed by the bank holding the mortgage. It enjoys a default rate well under 1%, with losses being protected because it sells the underlying house — and get invested in the meantime.

Shares were cheap for years on expectations that the Canadian housing market would collapse, leaving the company in a precarious position. But then, something interesting happened: one of Canada's largest asset managers bought a controlling interest in the company. With that vote of approval, shares rocketed up some 25%.

Even after the big move the stock is still cheap, trading at approximately 11x earnings. It also pays a solid 3.9% dividend, a payout that should continue to march higher.

RioCan

RioCan REIT (TSX:REI.UN) is the second-largest position in my TFSA. I'm a huge fan of CEO Ed Sonshine and the company's expansion plan.

The company is sitting on some valuable property, especially around the Toronto area. It can redevelop this land into mixed-use facilities much cheaper than other developers, as it's owned the land for decades now. This should translate into some serious wealth for shareholders.

Take one of its biggest developments, a property known as the Well in downtown Toronto. When completed, the property will have more than one million square feet of office space, 500,000 feet of retail space, and more than 1,800 apartments.

It's the largest mixed-use development currently being constructed in Canada, with the whole project slated to be finished in 2023. This project alone should be a nice addition to the company's bottom line.

Meanwhile, investors are collecting a nice 5.4% yield, a payout that should slowly increase over time.

Capital Power

Capital Power (TSX:CPX) is a rare combination of a high-quality company trading at a dirt-cheap price . That's a combination I like to see.

Let's start with what makes the company special. It's successfully transitioning away from coal-fired power plants in its home province of Alberta, using its pristine balance sheet to add greener assets around North America.

It's also converting many of its coal-fired plants to natural gas. This has caused a nice boost to the bottom line, a trend I expect will continue over time.

Despite this excellent growth plan, however, Capital Power shares are incredibly cheap. The company is projecting it'll earn approximately $500 million in adjusted funds from operations (AFFO) in 2019. Shares have a current market cap of just over $3.2 billion, which gives us a price-to-AFFO ratio of just over 6 times earnings. You won't find many healthy companies cheaper.

I'm content to sit back and collect my 6.2% dividend while patiently waiting for shares to trade at a higher valuation. Capital Power also has a history of dividend growth, with the payout increasing by an average of 7% per year since 2013. The company has already told investors to expect 7% annual increases through 2021, too.

The bottom line

I'm confident that Genworth MI Canada, RioCan, and Capital Power will deliver solid long-term gains for my TFSA all while paying above-average dividends. It really is that simple.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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