2 Stocks That Are Perfect for TFSA Investors

Description

If you have a Tax-Free Savings Account (TFSA), congratulations. Tax-advantaged accounts like these are the easiest and most effective way to increase the value of your portfolio.

Believe it or not, millions of Canadians spend their time trying to pick better stocks, yet relinquish those gains by paying unnecessary taxes. If you want true wealth, pick great stocks *and* shield yourself from taxes. That's what a TFSA enables you to do.

Armed with a TFSA, which companies should you be betting on? Many analysts recommend dividend stocks, as they can produce passive income without the tax consequences.

That's a suitable option for many, but if you truly want to take advantage of your TFSA, invest in growth stocks. These companies often double or triple in value in just a few years. In fact, the companies listed below did just that.

Most important, a TFSA protects you from the massive capital gains taxes you'd experience with stocks like these. Sure, a tax-free 5% dividend is nice, but wouldn't you rather have a tax-free 100% capital gain? I sure would. Explore what's possible with the following picks.

Cheap growth is rare

Canada Goose (TSX:GOOS)(NYSE:GOOS) stock is now on sale — a rare occurrence. In 2017, shares traded between 100 and 150 times trailing earnings. In 2018, the valuation hit 100 times trailing earnings on multiple occasions.

After a recent decline, the multiple is now down to just 45 times earnings. For a high-growth company, this discount should not be overlooked.

Over the last three years, this fashion company has grown sales by roughly 50% per year. In 2018, revenue grew by 40%. Investors expected this breakneck speed to continue for years to come.

Yet earlier this year, management reset long-term guidance to between 20% and 30% annual sales growth. That's still impressive, but far from historical norms. The stock fell sharply on the reset expectations.

The fall was a bit too steep, however. At this valuation, shares look like a bargain for buy-and-hold investors. This fiscal year, EPS should be around $1.67.

Next fiscal year EPS is expected to rise to $2.13, which implies a forward valuation of just 26 times earnings. That's way too cheap given that Canada Goose has a decade of growth ahead of it in lucrative markets like China and South Korea. High growth and a cheap valuation are a rare combination, especially when you stash them in a tax-free investment account.

Expensive growth isn't bad

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) stock isn't on sale. Shares trade at more than 1,000 times forward earnings and a whopping 24 times forward sales. It's difficult to find a more pricey stock. But just as not all cheap things are worth buying, some prices are worth the cost.

In Shopify's case, it's proved worthy of a sky-high valuation. Over the past year, shares have doubled. The year before, shares shot higher by 30%. The year before that was *another* doubling. Shopify has proven itself capable of outpacing even the highest expectations.

With a market cap of $46 billion, it's not difficult to imagine Shopify become a $250 billion behemoth years down the road, it's dominating one of the largest markets on the planet: e-commerce.

Analysts expect earnings to grow by more than 30% annually over the next five years, while sales growth should exceed 40%. Given the company has been focused on growth-mode, not profitability, cash flow could balloon when Shopify finally makes the transition.

This has been one of the hottest stocks on the TSX for years. TFSA investors have received those gains tax-free. Judging by the fundamentals, Shopify stock stands a good chance of continuing its run.

An earlier-stage Shopify competitor likely has a cheaper valuation and higher upside, but the original Shopify still looks like a good bet.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:GOOS (Canada Goose)
4. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/08/22
Date Created
2019/11/07
Author
rvanzo