



TFSA Investors: Where to Invest Your \$6,000 in New Contribution Room

Description

The Tax-Free Savings Account (TFSA) is one of the best ways for Canadians to build wealth. No other account type allows investors to grow their investments tax-free without consequence. There are no taxes on capital gains, dividends, interest or upon withdrawal. The TFSA's new contribution limit for 2020 is once again \$6,000, matching last year's contribution. The cumulative total is now \$69,500, which is plenty of room for investors to grow their wealth.

The question now becomes, [what should investors buy](#) with the additional contribution room? For the retail investor with a long-term horizon, investing in the markets is the quickest path to success. It is worth noting, however, that the markets are hitting all-time highs. We are in the midst of a record bull run, and valuations are become stretched.

It is for this reason I am suggesting that investors take a more defensive position in 2020. With that in mind, here are a couple of ways you can distribute your TFSA funds.

Canadian banks

One the most proven ways to [build wealth](#) is to invest in one of Canada's big banks. They have consistently outperformed the markets and, in some cases, have paid uninterrupted dividends for more than 100 years. This type of consistency is unique to Canada's Big Six.

In 2019, the banks underperformed for the first time in years, and as such, investors now have a great opportunity. With the exception of the **National Bank of Canada**, all of the Big Six are trading at a discount to historical averages.

Today, my preference remains **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). For one, it is the bank most exposed to the U.S. markets, which is a good thing. The U.S. market is expected to grow at a faster pace than here in Canada. Likewise, the level of consumer debt in the U.S. is much lower than that of Canadians, and provision for credit losses should grow at a rate below industry averages.

TD Bank also has the best dividend-growth rate among its peers. At an average of 10% over the past

five years, it is the only bank to have averaged double-digit dividend growth. Since it also has one of the lowest payout ratios at 47% of earnings, it is likely that dividend growth will continue to beat the average. Finally, it has the highest expected five-year earnings-growth rate at 7.35% and is trading at a 12% discount to historical averages. It has only been this cheap twice in the past decade.

A pipeline of wealth

Midstream companies are some of the best income stocks on the planet. They offer high yields, which are backed by stable and reliable cash flows. Although Canada's energy sector has struggled over the past couple of years, pipeline companies have held up better than most. One of the best in its class is **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)).

Over the past five and 10-year periods, Pembina has been the best-performing midstream company on the TSX Index. It has an industry-leading 10-year compound annual growth rate (CAGR) of 9.03%, more than double the CAGR of the TSX Index (3.57%). This is without the dividend. Pembina's total return CAGR is 14.35% once the dividend is included.

Pembina is a Canadian Dividend Aristocrat with an eight-year growth streak. It recently announced that the monthly dividend will increase to \$0.21 per share, as it closed on the **Kinder Morgan Canada** (TSX:KML) acquisition. Analysts are equally as bullish on the company as 16 of 18 rate the company a "buy" or "strong buy." Over the next five years, the expectation is for 8.3% average earnings growth — one of the top growth rates in the sector.

As of writing, the company is trading at a reasonable 16.21 times earnings, which is a 16% discount to its historical average. It is also worth noting that the company hasn't traded at such low valuations since 2010. Now is the time to take advantage.

CATEGORY

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1. Editor's Choice

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1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:PPL (Pembina Pipeline Corporation)
4. TSX:TD (The Toronto-Dominion Bank)

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Author

mlitalien

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