TFSA Investors: Where to Invest That $6,000 Contribution in 2020

Description

Another year, another boost to your Tax-Free Savings Account (TFSA) contribution room. According to the Canadian Revenue Agency (CRA), the TFSA contribution limit for 2020 is $6,000, the same as last year.

However, with the stock market trading at record highs and interest rates on conventional savings accounts at record lows, there aren't a lot of places you can put this money to work. Stocks seem overvalued, real estate seems overleveraged, and the Canadian economy could be due for a cyclical slowdown.

Despite the dwindling number of opportunities, savvy investors may still find some attractive spots to park their cash for long-term, tax-free gains. Here are three options.

Bet on America

The U.S. economy has been skyrocketing ever since the end of the global financial crisis in 2009. Part of the reason for this surge is the quantitative easing policy implemented by the U.S. Federal Reserve over these years. But part of the reason is also the strong growth and innovation by major technology companies that dominate the country's economy.

As such, it's been incredibly difficult to beat the S&P 500 index over the past 10 years. Even legendary investor Warren Buffett has struggled. With this in mind, **iShares S&P 500 Index ETF (CAD-Hedged)** could be a great bet for Canadian investors to add some exposure to the money-making machine south of the border.

Bet on emerging markets

Of course, America isn't the only growth engine in the world. Plenty of emerging economies, like India and Kenya, are expanding at double or triple the annual rate of their developed counterparts.

Now, as someone who was born and raised in Mumbai, I can tell you investing in emerging economies is complicated and risky. Instead, I prefer to bet through proxies like

Fairfax India Holdings or **Fairfax Africa Holdings**, both of which seem undervalued at the moment. I firmly believe India's growth rate will speed up in the years ahead, and Africa is full of untapped potential.

Adding exposure to both economies could propel your long-term portfolio forward.

Fly to safety

If you're not looking to bet beyond Canadian borders but are worried about the domestic economy dipping into recession this year, there's always the option to simply park your cash somewhere safe.

Liquid funds such as **CI First Asset High Interest Savings ETF** offers investors an option that is much better than placing cash directly in high-interest bank accounts. These ETFs spread cash across different high-interest accounts and offer the option to reinvest dividends to minimize tax implications and maximize compound returns over time.

CI First Asset High Interest ETF offers a 1.8% dividend yield at the moment, which isn't going to make anyone rich but is probably the most lucrative temporary option for investors looking for safety till the economic becomes less volatile or asset valuations improve.

Bottom line

The TFSA contribution limit for 2020 gives you a chance to bolster your long-term investment portfolio. However, with Canadian stocks and real estate looking increasingly overvalued, I prefer a flight to safety or a bet on an emerging growth engine such as India or Africa.

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