



TFSA Investors: Where to Invest \$6,000 Today

Description

Maximizing the Tax-Free Savings Account (TFSA) contributions every year and investing successfully over many years will result in tonnes of tax savings and more money in your pocket.

Here are two ways to take advantage of your TFSA with the new \$6,000 contribution room in 2020.

Active investing: Trading

Capital gains are taxed when you realize the gains by selling shares in your non-registered account. If there are certain stocks you plan to trade for capital gains, you should consider doing so in your TFSA to avoid having to pay taxes on the profits to the Canada Revenue Agency.

An interesting trading idea is [Teck Resources](#) ([TSX:TECK.B](#))([NYSE:TECK](#)). The stock has come off by about half its 52-week high.

A Teck Resources article stated that “an average gasoline-powered car uses about 20 kg of copper, a hybrid uses about 40 kg and an EV has roughly 80 kg. A hybrid electric bus contains nearly 90 kg of copper, while a battery-only electric bus contains nearly 370 kg.”

As a diversified miner and a significant copper producer with interests in four operating copper mines, the company should benefit from the shift to electric vehicles (EV) for decades to come.

At writing, the stock trades at \$17.24 per share, which is a long way off from the average 12-month price target of \$31.44 shown on Yahoo Finance. Specifically, it represents 82% near-term upside potential. The risk/reward ratio is in investors' favour, as the low target is \$16, which represents a 7% downside risk.

The stock currently yields about 1.1%, and the dividend is supported by a payout ratio of about 8% this year. The dividend is a nice bonus on top of TECK stock's potential price appreciation.

Passive investing: Getting safe dividends

Active investing with the goal of capital gains isn't a suitable investing style for everyone. If you prefer passive investing, consider **A&W Revenue Royalties Income Fund** ([TSX:AW.UN](#)), which is as passive as it gets. You can simply sit back and relax while letting the monthly cash distribution roll in to your TFSA.

[A&W](#) collects 3% of royalty income from the gross sales of about 971 A&W restaurants across Canada. Same-store sales growth and a growing restaurant count are what drive higher royalty income.

A&W has a strong same-store sales growth track record. From 2009 to 2018, A&W experienced eight out of 10 years of same-store sales growth, while in the remaining two years, one year's same-store sales growth was flat, and the other experienced mild same-store sales decline of 0.7%.

Since A&W pays out its cash distribution from the royalty pool and the recent payout was about 90% versus 2017's 98%, investors can be confident about A&W's current yield of about 5%.

By investing \$6,000 in the stock today, you can get passive income of \$300 per year. Moreover, that income will likely increase over time.

Notably, A&W stock has relatively low liquidity, but it shouldn't matter if you only care about safe dividends. Just remember to set a limit order to buy shares to ensure you get the price that you want.

Investor takeaway

You can benefit from the tax-free nature of your TFSA by trading actively for capital gains or passively receiving dividends inside the account. Typically, the latter approach leads to more secure returns given the dividends have sufficient coverage by earnings or cash flow, as is the case for A&W.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:AW.UN (A&W Revenue Royalties Income Fund)
3. TSX:TECK.B (Teck Resources Limited)

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