2 TFSA Stocks With High Upside Potential: Which Should You Buy?

Description

TFSAs are special. They allow you to shield an unlimited amount of gains from taxes. If you want to take full advantage of your TFSA, don't let these protections go to waste.

High upside stocks are a perfect match for TFSA investors. Just be careful about which stocks you choose. High upside potential usually comes with big downside risk. That's okay, as long as you optimize the risk-reward equation.

Want to strategically add major upside potential to your TFSA portfolio? The following picks are your best bets.

Capitalize on confusion

Maxar Technologies Ltd. (TSX:MAXR)(NYSE:MAXR) was once one of the hottest growth stocks in Canada. From 2009 to 2015, its shares increased from $20 to $100.

The rise seemed well-deserved. As a leading supplier of space equipment, Maxar was in the right place at the right time. Billions of dollars were pouring into new ventures like space exploration and satellite internet. Maxar closed dozens of large deals fairly quickly, and investors were excited about the company's long-term future.

Then Spruce Point Capital, a firm that shorted Maxar shares, released a report that accused the company of gross financial mismanagement. The report highlighted several accounting issues that it claims overstated earnings and understated the poor condition of the balance sheet.

The report contributed to a stock price collapse, with shares moving from $70 to $7 within six months. Spruce Point Capital likely profited handsomely from the decline.

Yet all was not lost. Late last year, JPMorgan Chase & Co. rated Maxar shares a “buy,” noting that the sell-off was overdone. Maxar also continued to secure new contracts with customers, indicating that their user base had no issues with the financial allegations.

The stock price has rebounded somewhat, but shares are still 75% off their all-time highs. If sentiment continues to improve, Maxar stock should generate plenty of upward momentum.

Play the expectations game

Bombardier, Inc. (TSX:BBD.B) is another low sentiment stock. Its shares trade dangerously close to a 25-year low. Yet here’s the thing: whenever sentiment is at its lowest, Bombardier has consistently been a buy. Let’s look at a recent example.

In 2017 and early 2018, Bombardier stock doubled in price. Everything was going right for the company. Its flagging jet segment was finally achieving success, its rail segment received several large contracts, and cash flow was headed in the right direction. Shares topped $5 by mid-2018.

Then, as it has repeatedly done over the years, Bombardier failed to meet rising expectations. Within months, shares slid 60%. This is a cycle we’ve seen again and again.

Today, the market is incredibly pessimistic. Bombardier is looking to sell additional business units, shore up cash, and reorganize several major business lines. It’s a company in transition, and investors aren’t ready for the ride.

Yet what have we learned from history? When expectations are at their lowest, Bombardier stock is a buy. Over the last 15 years, Bombardier stock has doubled in price five times! Each run started pretty close to today’s prices, and they were never anticipated by the market.

Bombardier operates an unwieldily industrial business model spread across multiple continents and end markets, yet the stock has consistently surged due to depressed expectations. This cycle looks no different.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:MAXR (Maxar Technologies)
2. TSX:BBD.B (Bombardier)

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