TFSA Investors: Where to Invest $6,000 Right Now

Description

If you're an investor looking to add stocks to your Tax-Free Savings Account (TFSA), today could be a good time to buy. Many stocks are trading not only at 52-week lows, but at lows not seen in years. It can be a terrific opportunity to lock-in a good price for a stock and put yourself in a good position to earn a great tax-free return later on.

While it's not easy seeing the markets continue to tumble, they're also mainly a result of fears surrounding the coronavirus. Similar to shoppers rushing out to buy toilet paper, panic selling in the markets will end, too. And when it does, stocks could see significant increases in value. The key is to be patient.

Which stocks should you invest in?

There's no shortage of potential stocks to buy today given how low many of them are down. For TFSA holders, dividend stocks can be particularly valuable. As they're down in price, their dividends are yielding more per year.

And as long as their businesses remain strong and their payouts aren't in danger of being cut, they can be great buys today. If the stocks rise, those dividend yields will shrink.

That's why buying dividend stocks when they're at a low is appealing, especially inside of a TFSA. Whether you earn dividend income or benefit from a rising share price, any income earned on an eligible investment inside of a TFSA is tax-free.

Every year, TFSA investors get more contribution room from the government. In 2020, eligible Canadians received an additional $6,000 of room. If you've never invested in a TFSA and been eligible ever year, your cumulative limit will be $69,500.

If you were to invest that amount in stocks yielding an average of 5% per year, that would allow you to earn $3,475 in dividend income every year that would be tax-free.

One stock to consider putting that extra $6,000 contribution room in is **Riocan Real Estate Investment Trust** (TSX:REI.UN). Riocan is a top real estate investment trust (REIT) in Canada that can offer both dividend income and stability.

With the recent market crash, the stock is now yielding around 6.5% annually. That's a solid yield and with a $6,000 investment, you could earn $390 per year in dividends. The REIT also pays a dividend every month. At that rate, its monthly distributions would total $32.50.

While it may be a modest amount, if you made several similar investments into dividend stocks and maxed out your TFSA, they can quickly add up in value. Adding an extra $3,000 or $4,000 in dividends every year can mean the difference between taking a vacation or not.

With those funds being tax-free, it's like earning another $6,000 or $7,000 at your day job. By earning more through passive income, you can minimize how much you need to earn from your active income.

Riocan is a safe investment because the REIT benefits from recurring income that shouldn't waver significantly from one period to the next, which makes the company very predictable and stable over the long term.

Those qualities also make it an attractive dividend stock. It's not only become a better value buy today, but it's yield also makes it too attractive to pass up.

Bottom line

Valuations are low right now and it's a stressful time for investors. But years from now, even perhaps months from now, you won't want to look back at this sell-off and regret not taking advantage of the opportunity to buy stocks at some very cheap prices.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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