TFSA Investors: Should You Avoid Dividend Stocks During the Coronavirus Pandemic?

Description

If you've got a Tax-Free Savings Account (TFSA), then you know that one of the big benefits of holding stocks in that account is that anything you earn isn't taxable. That includes dividend income, which over the years can contribute significantly to your portfolio.

However, the coronavirus pandemic has called into question many dividend stocks of late. Companies have been slashing or suspending their payouts amid all this uncertainty.

Vermilion Energy tried to keep its dividend going even amid a low price of oil, but the coronavirus proved to be too much for the company. In March, it cut its dividend in half and there's no guarantee there won't be more cuts in the future.

Even a normally stable dividend stock like **Enbridge** may be in danger. Whether its oil and gas, retail, real estate, banking, or any industry that can be adversely impacted by a recession or economic downturn, there aren't many dividend stocks out there that are safe today. As a result, TFSA holders may be asking the following question:

Is it safe to buy dividend stocks right now?

As no one knows how long the pandemic will last or how long its effects will linger, it's hard to say that any dividend stock apart from perhaps utility stocks could be safe buys today. In the short term, however, I'm definitely steering clear of dividend stocks.

Instead, the better strategy may be to look at undervalued stocks that could recover and that could generate significant returns during the process. If they happen to pay dividends, that's a great bonus.

But investors shouldn't be getting too attached to recurring payouts these days. There's little reason to believe they'll remain stable.

As companies tighten their financials, they'll need to cut costs and serve cash however they can — and that can include stopping dividend payments.

Capital gains may generate much more income than dividends, anyway

Whether you make money in a TFSA from dividend income or from a gain on the sale of a stock, it can still be tax-free income. As long as you're not day trading, you can make some significant tax-free income by buying cheap stocks today — and potentially selling them in a year or two when the markets have recovered.

A popular option for investors in this regard may be **Air Canada**. There's little reason to be bullish on airlines these days given that there won't be much travelling during a pandemic. That means that during the next year or so, perhaps longer, there could be some pain for Air Canada shareholders.

However, if you're able to hang on for a couple of years or longer, the potential is there for the stock to recover and perhaps even double or triple from where it is today. If that happens, you could cash on that profit inside of a TFSA and it would be tax-free income.

Whether you're looking at dividend income or capital gains, it makes no difference inside of a TFSA, as either source of income has the potential to be tax-free.

That's why when given the choice, TFSA holders may be better off focusing on value stocks rather than dividend stocks today.

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