Market Rally: The Best Thing TFSA Investors Can Do With $6,000

Description

The recent market rally has taken the **TSX Composite Index** up by about 30% since its lows last month. While many see this rally as short-lived, there are some stocks that could be less susceptible even if the markets crash from here.

A TFSA (Tax-Free Savings Account) is one of the best tax-efficient investment options Canadians have. TFSA users can buy stocks with strong total return potential, meaning both dividends and stock appreciation. The TFSA contribution limit for 2020 is $6,000, and the total, cumulative contribution limit is $69,500.

Shaw Communications

Shaw Communications (TSX:SJR.B)(NYSE:SJR) is one of the best defensive stocks in Canada. It looks attractive from the valuation standpoint even after the recent market rally and its strong dividend profile. Though it is the smallest in the three-player telecom industry, Shaw offers solid growth prospects mainly due to recent success in the wireless segment.

Lockdowns will likely have little impact on the earnings of the diversified communication company. It has been reporting stable revenues and earnings for the last several quarters. Its wireless segment, known as Freedom Mobile, offers it strong growth potential for the future.

In the most recently reported quarter, Shaw Communications added 54,000 net postpaid subscribers. Its wireless customer base stood around 1.8 million.

Shaw stock offers a dividend yield of 5%, which is higher than the broader market. Notably, it has stable cash flows, which will continue to fuel stable dividends in the long term.

The stock has surged more than 30% from its 52-week low last month amid the market rally. Its discounted valuation compared to historical trends indicates there is room for further growth and a limited downside from the current levels.

Metro stock beat the market rally

Metro (TSX:MRU) is another solid defensive play that's currently trading close to its record high levels. However, despite this recent market rally, Metro stock looks more fairly valued compared to peers **Loblaw** and **Dollarama**.

With a network of approximately 1,600 food and pharmacy stores across Quebec and Ontario, Metro offers basic necessities that will hardly go out of demand. The stock was relatively stable in the turbulent times during the pandemic-driven market weakness last month.

For the quarter ended in March 2020, it reported revenues of almost $4 billion, which were 8% higher year over year. Its net income increased a notable 18% year over year, to $183 million. Metro released these earnings last week, which further boosted the stock price.

Metro stock is currently trading at a dividend yield of 1.5%, which is much lower than that of the broader markets. Though it offers an unexciting yield, its dividend growth rate was 15% in the last five years, much higher than its peers. Notably, during the 2008 financial crisis, Metro didn't just keep on paying dividends, it also increased its payouts.

Both Metro and Shaw Communications are classic defensive stocks. These two companies are well-positioned to withstand an economic shock mainly due to their stable earnings and the nature of their businesses. Their solid total return potential makes them both a fitting investment option for TFSA investors.

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1. Coronavirus
2. Dividend Stocks
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2. TSX:MRU (Metro Inc.)
3. TSX:SJR.B (Shaw Communications)

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