Where to Invest $6,000 in TFSA Contributions Right Now

Description

Investing after the COVID-19 pandemic could be an interesting wealth-creation game. Some entire industries remain heavily battered after the 2020 market crash, yet selected stocks have soared. This seems like the best time in a decade to invest the maximum contribution of $6,000 in a Tax-Free Savings Account (TFSA). Even better, you could aim to max out to the cumulative contribution room to $69,500 in 2020 (if you had some room left) and take great advantage of a beaten-down stock market this year.

Carefully selecting what to buy with your TFSA contributions is more important than ever right now.

Technology stocks are likely to continue to lead the pack as the market rebounds. A momentum play could yield quicker positive results if you buy into the hot names that enjoy the limelight right now.

Darling **Shopify** stock has been generous this year, as it recorded new all-time highs. Be careful though; tickers that have rallied so much could be ripe for profit-taking, consolidation, or an outright correction. I would hold on to an old position, but new money could be best placed somewhere else.

Where to invest new TFSA contributions right now?

The COVID-19 pandemic has altered our everyday lives; even our investing approaches need adjustments now.

We used to look so much into profitability, revenue, and earnings-growth projections during stock selection. Valuation multiples like price-to-forward-earnings (P/E) ratios mattered a lot when evaluating potential investment candidates.

Unfortunately, high uncertainty during the COVID-19 pandemic and potential shifts in consumer behaviour after the health crisis require that we look deeper into the companies. Most companies have already withdrawn their earnings guidance for this year. Basing investment actions on mechanical earnings projections requires wide margins of error during periods of high uncertainty.

The truth is, earnings could be lower for most industries this year. I would still buy shares in companies that look well positioned to survive the pandemic. It's either they have relatively unaffected operations, or they have very good prospects to rebuild their balance sheets quickly when normalcy returns.

Two important groups of investment candidates stick out right now.

Stocks with strong cash flow positive operations

The ability to consistently generate dependable and reliably positive cash flows and to sustain regular dividend payments are rare attributes that should be highly priced going forward.

A good number of tech stocks and communications players fit into this category; so do Canadian banks and selected real estate investment trusts (REITs).

Kinaxis, **Enghouse Systems**, and **Open Text** are good names to look at. South of the border, behemoths **Microsoft** and **Alphabet** are doing wonders, although the latter reported its slowest (albeit double-digit) revenue growth rate for the most recent quarter.

Toronto-Dominion Bank management vowed not to touch the dividend, which yields a rare 5.5% annually right now.

Firms with solid rebuilding prospects

These companies may have taken heavy blows from the COVID-19 pandemic. Their revenues, earnings, and cash flows are in shambles. But they have very strong rebuilding prospects. They either had ample liquidity going into the crisis or deep and vibrant credit lines with bankers. Their operations will spring back to profitability in relatively fewer quarters post the pandemic.

These stocks were heavily beaten down during the recent market crash. Many REITs could fall into this category, and their current income yields are too tempting to ignore. Actually, REITs could never be this cheap again this decade. Some better-managed and relatively more liquid airlines also fall into this category.

Chorus Aviation has already shored up its takeover defences. The company announced a contingent shareholder rights issue at a 50% discount to the prevailing market price. Chorus's board senses that many opportunistic contrarian investors could be tempted to snatch this jewel from current shareholders for cheap during this down market. **Air Canada** is much more liquid than it was one crisis ago. I would bet that this national strategic asset could still be bailed out if necessary.

I like that narrative. That said, take note that this category's candidates are higher-risk investments, and some may require longer holding periods for the outsized returns to compound.

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Date
2025/08/26
Date Created
2020/04/30
Author
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