Which Stocks Should You Buy for a TFSA Right Now?

Description

A simple investment strategy that has developed during the pandemic involves building a “3D” portfolio. Those three “Ds” refer to defensive, diversified dividends. It’s a stripped-down take on the usual recession playbook and works on a build-and-trim principle.

Using this basic set of guidelines, any investor can pad out a Tax-Free Savings Account (TFSA) over a period of months during a drawn-out market contraction. Investors can choose from an array of dividend stocks from the best segments of the TSX. Some of the best dividend stocks include banks, blue-chip energy producers, and the best names in freight and transport.

What stocks to trim

Canadian Apartment REIT, also known as CAPREIT, has been having an on-and-off relationship with defensive investors during the pandemic. On the one hand, rent has been a hot topic, as households’ bottom lines get paddled by the lockdown. On the other, rent is the one thing that gets prioritized by households before food and utilities. After all, the latter two commodities aren’t much use without a roof over them.

Retail and office REITs are not the best buy for a TFSA, however, despite their appealing valuations. Yields may be high, but so is risk in an area likely to feel the pinch for months to come. One of the biggest problems with retail in particular is that lost revenue is lost forever. Months of lost sales won’t be recuperated. And yet rents are still being paid in an effort to maintain claims to prominent sites.

The contrarian case for buying bargain retail REITs for long-term recovery is worth a mention. However, the sector is facing stiff challenges from the e-commerce crowd. Look at **Shopify’s** breakout first-quarter performance, or **Loblaw’s** partnership with Instacart. Actual brick-and-mortar stores could offer a boutique experience in the future not accessible online; however, the thesis for owning them is weakening.

Office REITs are similarly tainted with uncertainty. Whole sectors are finding that they can be operated remotely, cutting down on electricity usage, rent, commuting time, and any number of other overheads.

This model may even be carried over post-pandemic. The case for buying into any trust that holds office space is about as untenable as retail exposure in a long-term TFSA.

What stocks to build

Banks are one of the great strengths of Canadian stocks, especially when it comes to passive-income investing. They're a popular addition to long-term portfolios and have gained traction south of the border, too. But what makes Canadian banks so appealing? The short answer is that Bay Street's finest moneylenders pack defensive dividends with gradual growth just right for years-long appreciation.

Some casual TSX investors buying Big Five shares may be unaware of **Scotiabank's** strong presence in Latin America. The Big Five banker commands an impressively wide economic moat in the Pacific Alliance countries, comprising Chile, Colombia, Mexico, and Peru. Scotiabank therefore satisfies all three tenets of a 3D investment, packing defensive dividends with some strong diversification.

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