Market Rally: Where TFSA Investors Should Invest $69,500 Right Now

Description

Canadians have some of the best tax-efficient investment tools in the form of Tax-Free Savings Account (TFSA). It is useful to create a retirement reserve over the long term without any tax obligation to the Canada Revenue Agency.

The contribution limit in your TFSA account this year is $6,000. However, if you have never contributed to it, the limit is $69,500. The contributions are not tax-deductible, but any income received in the form of capital gains or dividends in the TFSA is tax-free.

Making the best use of the TFSA

Many individuals shun equity investments mainly because of the volatility risk. However, stock markets have created massive wealth over the years. Thus, rather than completely avoiding the risk, investors should learn to better manage the risk.

So, where should investors park their hard-earned money?

The e-commerce giant **Shopify** has been a solid wealth creator for the last several years. The stock has more than doubled so far this year despite the coronavirus bear market.

The increasing trend of online shopping drove many businesses to set up their digital stores, which worked well for Shopify. Driven by the recent rally, Shopify became the biggest company by market capitalization in Canada.

Barrick Gold, the second-biggest gold miner in the world, has also seen stupendous growth recently. While the miner generally grows in-line with the broader markets, its superior earnings growth in the last few quarters makes a strong case for it as a growth stock.

Higher gold prices could continue to uplift golf miners' earnings for the next few quarters, and eventually, their stock prices as well. Barrick Gold stock has surged more than 85% in the last 12 months.

Its high-quality mining assets and strong balance sheet coupled with a bullish outlook for gold is indeed a treasured combination for long term investors.

Investors should note that these high-growth stocks come with high risks as well. However, they take a much shorter time to create a reserve compared to defensive stocks. For instance, a $10,000 investment in Shopify stock five years ago accumulated to $340,000 today.

Defensive stocks

Slow-moving, dividend-paying stocks could be counted under defensive stocks. These include utility stocks, telecom companies, or grocers. They generally grow very slowly and remain relatively stable in market crashes.

Investors can consider utility stocks like **Fortis**, particularly amid these volatile broader markets. It pays stable dividends as it generates stable cash flows, whether it's a recession or a boom. Fortis offers a yield of 3.6% at the moment.

A $10,000 investment in Fortis five years ago would have accumulated to $16,500 today, including dividends.

Apart from utilities, grocery store companies also continued to operate without any major hiccups during the pandemic. Thus, investors who held shares of companies like **Loblaw** during the recent crash worked out pretty well for them. While the **TSX Index** has lost almost 10%, Loblaw stock has gained marginally so far this year.

Investors should not just go for aggressive or defensive stocks. A healthy combination of both would do better in bullish as well as in bearish markets.

Also, for those who want to escape the whole process of research and picking individual stocks, they can always go for index funds. Canadian investors can consider **iShares S&P/TSX 60 Index ETF**, which gives exposure to the country's biggest companies. It offers diversification and replicates returns of the Canadian broader markets.

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Date
2025/08/26
Date Created
2020/06/03
Author
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