Buy These 3 Top Stocks for Years of TFSA Growth

Description

What do you call it when a recovery is baked into the markets, but nasty surprises can still cause a selloff? Well, you might want to call that the top. At some point, the markets will begin to resemble the economy. The markets need a correction, and the signs are pointing to one. But if we are at the top, what should investors do about it?

Make hay while the sun shines

Everyone was looking for the bottom back in March. They feared it in April. In May, investors believed that stocks really do "only go up." July might be the month that investors finally discover that this market actually has a roof. That makes this a good time to start cashing in a few chips from your Tax-Free Savings Account (TFSA).

Yes, it's that time again: time to take things off the table. Some sectors have been thoroughly chewed over by the pandemic. Some hydrocarbon energy stocks have plummeted. Other areas, especially financials, have also taken some heavy losses. Banks and insurers are among the worst-hit sections of the TSX. These are therefore some key areas to start trimming assets from your TFSA.

But as the markets begin another painful, if sensible, correction, bargain hunters will see some high-quality names going on sale. Investors should keep an eye on defensive dividend stocks. Strong buying theses include low-carbon energy and diversified asset managers. Names like **Fortis** and **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) stand out. This pair of aristocrats match formidable track records with 2020 resilience.

Weigh those forever stocks for a TFSA

But what about **Intact Financial** (TSX:IFC)? Intact has so far beaten its competition (some of thebigger insurance names are down almost 30% year on year). Having ditched a comparativelyreassuring 5.5%, Intact is close to living up to its name. What really marks this insurance dividendstock out for inclusion in a TFSA, though, is its long payment growth record.

Why avoid it? Declining profits means that, while dividend growth is welcome, it's been coming at a price. Check out its payout ratio, though: 67% allows future growth, while also providing reassuring coverage. Now have a look at its debt-to-equity ratio: 31% is characteristic of a healthy balance sheet.

A better buy, though, might be Brookfield Asset Management. If nothing else, Brookfield stocks are always a strong play for diversification. BAM is a buy for an overall mix of dividend quality, general good value for money, and a positive outlook. A 1.5% dividend is certainly at the smaller end of the scale. However, its 10% growth rate over the last 10 years coupled with a low 38% payout ratio suggests that payments will increase in the long term.

Dividend investors won't find much stronger names on the TSX than Fortis and BAM. One issue, though, is that as the circle of safe sectors constricts, the risk of overexposure rises. A portfolio needs to be spread over more asset types than just utilities, gold, and consumer staples. This is why other approaches, such as barbell portfolios, can help reduce overexposure while also providing shorter-term gains.

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Date

2025/09/15
Date Created
2020/06/25
Author
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