Got $5,000 to Invest? Buy This Beaten-Down Stock for Your TFSA

Description

While markets have generally recovered their lost ground after the COVID-19 sell-off, there are still many stocks which are selling cheap. So, if you have some unused Tax-Free Savings Account (TFSA limit) you can still put your dollars to work.

Why banks?

In Canada, the nation's top bank stocks offer one avenue to explore for value investors. After the recent sell-off, their dividend yields have become attractive. But buying a stock with a high dividend yield often comes with a greater degree of risks.

The stocks that pay higher returns might be facing intense competition, their balance sheet could be loaded with debt, and their management has no idea how to produce growth that will satisfy investors.

However, you can't beat the market without taking some extra risks and invest in stocks whose values are depressed due to some short-term issues.

Canadian banking stocks have offered some of the best returns to long-term investors due to the strength of their businesses and their diversified operations.

In general, these stocks return between 40-50% of their income in dividends. If you're interested in buying bank stocks for your Tax-Free Savings Account (TFSA), the next step is to find the best opportunity available.

Why is CIBC stock attractive?

In this market, I particularly like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), the nation's fourth-largest lender. Its stock is down about 13% this year, even after recovering some ground in the post pandemic rally. CIBC stock is now trading at $93.40 at writing, offering an annual yield of 6.3%.

That yield is much higher if you compare it with what your TFSA could earn on a savings account, or GICs. But there are reasons for this higher yield.

The lender's weakening earnings, exposure to the nation's mortgage market, oil companies and the rising provisions for bad loans are hurting its stock.

CIBC's profit plunged 71% in the second-quarter amid a surge in provisions for credit losses. But I believe the period of sluggish growth will be short term and the monetary and fiscal support will revive the Canadian economy quickly.

"Our capital position remains strong, giving us flexibility and resilience as we navigate the current environment and continue to advance our long-term client-focused strategy," said CEO Victor Dodig in a press release.

"This will enable us to further diversify revenue streams, deepen client relationships and improve our efficiency as we continue to deliver value to our shareholders."

There are already indications the worst of this economic downturn is over. Oil prices are recovering and the nation's housing market is showing strength with no sign of distressed sales.

Bottom line

With an annual dividend yield of over 6.3%, CIBC stock is a good candidate for your TFSA dollars. Its current dividend yield is one of the best among the major banks. CIBC pays a $1.46-a-share quarterly dividend with a long history of consistent growth.

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