TFSA Investors: Where to Invest $6,000 Right Now

Description

Amid these uncertain times, investors should focus on keeping things simple. Companies that have been around for years and have survived multiple market downturns should emerge stronger. High-quality **TSX** stocks that pay stable dividends will likely outperform broader markets in the long term.

Where TFSA investors should put their money

One top TSX stock investors can consider right now is **Royal Bank of Canada** (TSX:RY)(NYSE:RY). Royal Bank stock offers unmatched stability and is currently trading at an attractive valuation, making it an appealing bet.

The country's biggest bank by market capitalization serves more than 17 million clients globally. More than 60% of its total revenues comes from Canada, while 23% comes from the south of the border. Apart from personal and commercial banking, wealth management and capital market operations notably contribute to its earnings. This diversified earnings base bodes well for its long-term stability.

Royal Bank stock has been quite a consistent performer in the longer term. In the last decade, it returned 11% compounded annually, notably beating top TSX bank stocks. An investment of $10,000 10 years back would have accumulated to approximately $28,000 today.

Near-term challenges could dominate

In the last reported quarter, Royal Bank reported net income of $1.5 billion, a decline of almost 55% compared to the same quarter last year. The steep earnings decline was a result of record-high provisions for credit losses driven by the pandemic.

The pandemic-driven weakness might force the bank to make higher provisions in the current quarter as well. This could further lower its earnings and dominate its market performance.

However, Royal Bank's long-term growth prospects look intact. In the last few years, the bank has reported one of the highest profit margins among peers. Its diversified earnings base and deposit growth might underpin a relatively faster recovery.

Importantly, the bank's exposure to the most vulnerable businesses amid the pandemic stands at just 7%. This includes highly volatile energy markets as well as the hardest-hit retail sector.

Royal Bank of Canada stock: Valuation and dividends

The country's biggest bank stock exhibited a notable weakness during the COVID-19 crash. It has soared more than 30% since its record lows in March. The stock is currently trading at a forward price-to-earnings valuation of 12 times. Its price-to-book value ratio is at 1.6 times. This looks fairly valued against peers and its historical average.

Royal Bank's handsome dividends should compensate for its potential interim weakness to some extent. It is currently trading at a dividend yield of 4.6%, higher than TSX stocks at large.

In the last 10 years, it has managed to increase dividends by 7% compounded annually. Interestingly, its dividend growth for the next few years looks unharmed, mainly driven by its strong balance sheet and stable earnings.

Canadian investors have one of the most tax-efficient investment choices in the form of a Tax-Free Savings Account (TFSA). Dividend income or stock appreciation generated within the TFSA are tax-free throughout the holding period and at the time of withdrawal. The TFSA contribution limit for 2020 is $6,000.

Canadian investors can invest in Royal Bank stock using the TFSA. The tax saved on dividends and capital gains by eligible investors will notably boost the long-term returns.

Apart from the Royal Bank, investors can consider three TSX stocks with strong total return potential in order to diversify.

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