TFSA Investing 101: Warren Buffett Fans Would Love This Unloved Stock!

Description

Every dollar in your TFSA (Tax-Free Savings Account) is probably worth a heck of a lot more than a dollar in a non-registered account when you take into consideration the effects of long-term, tax-free compounding. You're also unable to salvage investment losses in your TFSA to offset gains elsewhere. As such, it's only prudent for TFSA investors to ensure they're investing for the long term by scooping up stocks that are preferably at wide discounts to their intrinsic value (or relative to their peer groups) to minimize downside risks.

Personally, I like having a wide margin of safety with the stocks I choose to hold in my TFSA to minimize the chances of outsized losses in a market-wide correction. When it comes to your TFSA, it can pay massive dividends to follow Warren Buffett's top two rules for investing: "Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1."

Be like Warren Buffett and invest wisely with your TFSA funds!

While seeking to maximize your margin of safety is always a good thing, one must be careful to not bet on firms that are on the wrong side of a secular trend, or stocks that are facing substantial long-term downward pressure. Buying on dips may be a good course of action most of the time, but if you buy shares of a perennial underperformer, you can't expect a reversal after you've scooped up shares.

As harsh as this sounds, a stock couldn't care less about when you decided to jump in. Betting on a long-term reversal in a plunging stock can take time, and if you're going to do it, you'd better be sure that the stock under question is actually undervalued and not a value trap. More importantly, you've got to make sure your stomach is strong enough to deal with continued volatility.

This piece will have a brief look at a reliable business with an unloved stock that I think has a wide margin of safety at current levels.

Tucows: An underappreciated value stock that's worthy of your TFSA

Tucows (TSX:TC)(NASDAQ:TCX) is an internet service and telecom firm with the second-largest domain registrar in the world.

You're not going to get massive growth from the business of domains anymore, as the dot-com boom has come and gone. What you will get, however, is a "Steady Eddie," utility-like operating cash flow stream with a higher degree of predictability than most other "sexy" tech stocks out there. While there have been competitive pressures in the space of late, I ultimately think that Tucows's telecom subsidiary Ting can pick up the slack, as it looks to capitalize on the next generation rollout of new telecom tech.

Domain registrars and telecom services sound pretty boring on the surface. The glory days of domains may be in the rear-view mirror. Still, I am enticed by the relative predictability of Tucows's cash flows and the ROIC-boosting potential behind Ting, as it introduces new telecom tech to the communities it serves. Moreover, I'm a fan of the valuation after the latest sell-off in the name.

Today, TC stock trades at a modest 1.9 times sales, which is around a 5% discount relative to historical averages. If you're looking for resilience in the face of this pandemic, Tucows looks very enticing at this juncture.

Foolish takeaway

If you're looking to invest with your TFSA over the long term and lower your downside risk amid this pandemic, Tucows is a resilient company with what I believe is an underrated low-risk growth story. I view the domain business as a stable cash flow-generative foundation and Ting as a "growthy" subsidiary that will stand to do more of the heavy lifting over the years. Tucows's valuation and the long-term growth thesis is something I think Warren Buffett fans can appreciate.

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