TFSA Investors: Where Should You Invest $6,000 Today?

Description

Here are two **TSX** stocks that can generate sizable returns in the long term for your Tax-Free Savings Account (TFSA) portfolio. One of the picks might look relatively risky due to its near-term challenges, but it offers decent growth potential. The second pick pays consistent dividends and offers stability. Thus, the combination of these two will go well to diversify risk and to generate long-term wealth.

Air Canada

Shares of the country's biggest carrier **Air Canada** (TSX:AC) stock cratered more than 65% amid pandemic weakness. In my view, the worst is over, and the second half of the year will bring a lot of good for the company.

Even if Canada's travel regulations are among the major pain points for the company, they will likely ease soon to follow global practices. Normalizing operations on a higher number of routes will substantially improve its top line, ultimately lifting Air Canada stock.

More importantly, what would you fly if not Air Canada? The country's peer airline companies are far behind in terms of market share and are in even deeper trouble. Because of Air Canada's scale, it has more ammo to fight this grave crisis compared to smaller peers. The flag carrier has seen a couple of such disasters in the past and has only emerged stronger.

Air Canada management expects to reach air travel demand to its pre-pandemic levels in three-years' time. I think the stock will react much faster to some of the green shoots than that mainly because of its current valuation and long-term growth potential.

Fortis

Top utility stock **Fortis** (TSX:FTS)(NYSE:FTS) is possibly one of the most stable investments in Canada. It has managed to increase its dividends for the last 46 consecutive years. It yields 3.5% at the moment, in line with the Canadian broader markets. The management intends to increase its dividends by 6% per year for the next few years.

The $25 billion Fortis operates in five Canadian provinces, nine U.S. states, and three Caribbean countries. It together serves nearly 3.3 million customers. The utility earns almost all of its profits from regulated operations. These large-scale regulated operations enable stable and predictable earnings, which eventually facilitates stable dividends.

Fortis is a slow-growth company, and one can't expect superior returns from it in the shorter time span. However, the earnings and dividend stability it offers is truly unmatched. In the last 10 years, Fortis has returned 170%, including dividends.

Investors should note that utility stocks generally outperform in low interest rate environments. Investors switch to low-risk stocks like utilities to generate higher yields. Higher volatility in broader equities also pushes investors towards safe assets like utilities.

Any gains in the form of stock appreciation and dividends generated within the TFSA will be tax-free, even at withdrawal. An equal portion of the TFSA contribution limit in these two stocks could generate solid returns over the long term. Notably, the two stocks are less correlated to each other and, thus, meet the sector- as well as risk-diversification needs.

CATEGORY

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1. NYSE:FTS (Fortis Inc.)
2. TSX:AC (Air Canada)
3. TSX:FTS (Fortis Inc.)

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