TFSA Investors: The 2 Best Stocks to Invest $6,000 Into Now

Description

Now is a great time for investors to think about investing their Tax-Free Savings Account (TFSA) contribution for 2020. With only a few months left in the year, investors have a great opportunity to deposit their $6,000 contribution amount and get that money working for them.

If anything, the pandemic crisis has been a reminder to Canadians to start building their rainy day/emergency/retirement funds. There is no better way to do that than through a TFSA.

Forget GICs: A TFSA will build real wealth

Savings funds, GICs, and T-Bills are safe, short-term places to protect money. However, it is almost impossible to earn any long-term return after subtracting commissions, taxes, and inflation. Inside the TFSA, you pay no taxes on earnings and you can literally compound all your returns. For investors who have a long time horizon and can afford patience, a TFSA is a perfect wealth-creating ally.

Here are two of my favourite TFSA stocks that would be great ideas for your 2020 $6,000 contribution.

This TFSA stock is the king of compounding wealth

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) may well be the greatest Canadian company at managing, allocating, and compounding capital. BAM owns, manages, and invests in alternative assets across the globe. It has five subsidiaries that include infrastructure, renewables, real estate, private equity, and distressed debt (through its stake in Oaktree Capital).

There are a number of catalysts that make the stock attractive today. Firstly, with interest rates at all-time lows, BAM has an incredibly low cost of capital to acquire, refinance, and invest in value-priced assets.

Secondly, institutional capital continues to flow into alternative assets for higher-yielding returns. BAM had its best fundraising period ever in its last quarter. Clearly, institutional demand is very strong.

Consequently, BAM's balance sheet is loaded with $77 billion in liquidity that it can deploy wherever distressed/value assets come for sale.

Lastly, this TFSA stock is cheap relative to history. It is trading with a price to net asset value of 0.88 times, which is a 4% discount to its average of 0.92 times. Likewise, its price-to-earnings ratio trades at only 17.5 times — a 21% discount to peers like **The Blackstone Group**.

Management has suggested that the next 10 years could be just as good or better than the last decade. Since the start of 2010, BAM has returned 459% (or an average annual return of 18.7%) to shareholders. If that's a predictor of the future decade, then that sounds pretty good to me!

This stock is the king of safety

Fortis (TSX:FTS)(NYSE:FTS) is another stock that investors would be wise to add to their long-term TFSA portfolios. The stock had a quick recovery out of the March crash, but has mostly flatlined since. The stock looks to be somewhat fairly valued here. Yet, considering its stable business model, its predictable cash flow stream, and attractive growth profile, I think it is still a great long-term hold.

In September, Fortis affirmed its five-year capital outlook and raised its annual dividend by 5.8%. It plans to invest over $19 billion in capital growth projects. As a result, Fortis believes it could achieve compounded annual rate base and dividend growth of about 6% for the next five years. It already pays a decent 3.7% dividend, so the additional growth sweetens the deal.

Fortis provides essential power generation, transmission, and distribution infrastructure and services. Its business model is incredibly stable and resilient in any market. A 9-11% annual combined return is a pretty attractive offer for one of North America's strongest utility businesses. For me, Fortis looks like a perfect TFSA stock to buy and hold for the next decade.

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robbybrown