Got $7,000 to Invest in a TFSA? Here's How to Turn it Into $161,000 for Retirement

Description

The stock market crash in March and subsequent rally caught most investors off guard.

TFSA investors who normally put money to work early in the year decided to wait out the turbulence. They now have cash sitting on the sidelines, but don't know where they should invest the funds.

It's certainly a challenging time to be a Canadian investor. The pandemic continues to wreak havoc on global economies. The upcoming U.S. election threatens to destabilize markets, and financial measures put in place to help people and businesses are starting to expire.

Fortunately, the market craziness in recent months is providing buy-and-hold investors with some compelling deals. In fact, additional downside anticipated in the coming weeks could offer a great TFSA buying opportunity.

Is TD Bank a good stock to buy today?

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's second-largest financial institution by market capitalization. Analysts often cite TD as the safest pick among the big Canadian banks due to its focus on retail banking. The pandemic, however, rocked that boat a bit.

With unemployment skyrocketing in both Canada and the United States, the market worries that TD could take a big hit on its large mortgage portfolio. On average, the large Canadian banks deferred payments on roughly 15% of total Canadian residential mortgages earlier this year. The six-month payment holidays are expiring, and investors wonder what comes next.

South of the border, TD's large U.S. operations typically generate more than 30% of total adjusted profits, so analysts are trying to figure out how TD and other bank stocks could be impacted by policy shifts under a potential Biden presidency. At the same time, rising coronavirus cases in the United States threaten further lockdowns and slower economic recovery.

Near-term risks definitely exist, but buy-and-hold dividend investors might want to add some TD stock to their TFSA portfolios on additional pressure.

Why?

TD remains a very profitable company, even in the current environment. In fiscal Q3 2020, TD reported adjusted earnings of $2.3 billion. That's down 30% compared to the same period last year but still represents solid profits for just three months of operations.

The stock trades near $60 per share compared to $75 earlier this year, so there is decent upside when the economy recovers. Investors who buy TD today can pick up a 5.25% dividend yield.

Adding TD stock to your portfolio on a dip has proven to be a lucrative move over the past few decades. A $7,000 investment in TD just 25 years ago would be worth $161,000 today with the dividends reinvested.

The bottom line on TFSA Investing

The TFSA is a great tool to tap the power of compounding to build savings for retirement. Canada is home to many top dividend stocks, like TD, that trade at attractive prices right now and deserve to be on your buy-and-hold radar.

There is a chance the market will correct sharply again in the coming weeks, especially if the U.S. election turns out to be a close contest. If that happens, investors could get another opportunity to buy top stocks at a steep discount.

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aswalker