Got $6,000 in TFSA Cash? Here's How to Turn it Into $10,000 in 5 Years!

Description

If you're like many Canadians who've yet to contribute their 2020 Tax-Free Savings Account (TFSA) contribution of $6,000, you're not alone. The unprecedented COVID-19 crisis has left many on the sidelines. In just over two months' time, you'll have another $6,000 contribution to put to work.

And while the risk/reward is arguably unfavourable in this pandemic-plagued environment, it's a good time to use your uninvested TFSA cash to invest in high-quality shares of wonderful businesses gradually on the way down, rather than just watching your cash pile collect dust in those so-called high-interest TFSA savings accounts.

Hoarding TFSA cash comes at a high opportunity cost

Now, dollar-cost averaging isn't a cutting-edge investment strategy by any means. But in times like these, when the markets could plunge by 10-20% in a matter of days, you're always going to want at least a bit of dry powder on the sidelines so that you'll be able to take advantage of the bargain-basement prices that come with market crashes. Indeed, a market crash can be a terrible thing to waste.

That said, there is an abundance of bargains that exist today that can hold their own in the next sell-off. And it's these bargains that you should feel compelled to buy when you deem them to be undervalued.

A TFSA is a powerful tool that can help one compound their wealth without the effects of taxation over the long run. Of course, to enjoy such long-term benefits of tax-free compounding, one actually has to be invested. If you're weary over the market's trajectory but are also concerned over near-zero interest rates on savings in the face of an uptick in inflation, you may want to consider scooping up a defensive dividend blue-chip like **Fortis** (TSX:FTS)(NYSE:FTS) with your TFSA funds.

TFSA Investors: Bond proxies to the rescue?

With Fortis, what you see is what you'll get. A 3.7%-yielding dividend that's projected to grow at a midsingle-digit annual rate and little in the way of quarterly surprises despite the disruptive impact of the coronavirus pandemic. While Fortis is a retiree staple, in this time of tremendous uncertainty that the stock has become a must-own for any Canadian investor who wishes to lower their correlation to the broader markets and their exposure to “risk-free” fixed-income assets, many of which are no longer worth holding for long-term-focused TFSA investors.

Fortis stock is stock in a consolidation channel in the mid-to-low $50 levels. With one of the most resilient regulated operating cash flows out there, I’d say the stock is a buy now while shares are still modestly valued, as I don’t think the next market correction will rattle Fortis stock in the slightest.

With a 0.06 beta (low-to-no correlation to the broader **TSX Index**) and a mere 2.9x sales multiple, cash-heavy TFSA investors would be wise to scale into Fortis today, as shares are a great value and are more likely to zig when the markets zag.

Foolish takeaway on Fortis stock

TFSA investors are facing pressure from both sides. Not just a choppy stock market that could be on the verge of correcting once again, but unprecedented stimulus could pave the way for inflation, eroding one’s savings that generate near negligible amounts of interest in a TFSA.

By putting cash into cheap defensive dividend stocks, investors can better hedge both the downside risks of being invested in the equity markets and the opportunity costs of being left in cash and “guaranteed” investments that are probably only guaranteed to lose purchasing power over time in this era of near-zero rates.

Given the appetite for quality bond proxies is likely to increase over the next few years, I’d say a $6,000 investment in Fortis could realistically grow to $10,000 in five years with dividends included.

CATEGORY

1. Coronavirus
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

Category

1. Coronavirus
2. Stocks for Beginners

Date
2025/08/24
Date Created
2020/10/26
Author
joefrenette