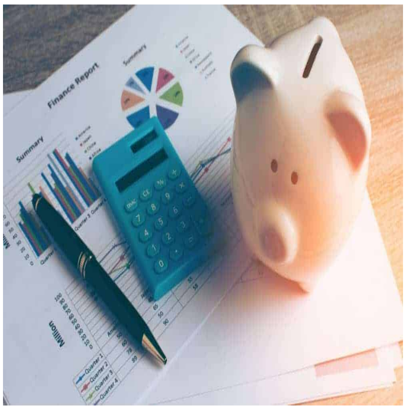

Warning: Don’t Save in Your TFSA! Do This Instead

Description

Too many Canadians are still saving in their Tax-Free Savings Account (TFSA)! However, the Bank of Canada is planning to keep the benchmark interest rate at close to zero at least until 2023. This means that if you put money in a savings account or guaranteed investment certificate (GIC), you won’t make much.

Instead of saving in your TFSA, you should consider *investing* in it. Currently, the best three-year GIC rate is offered by EQ Bank and going for 1.15%. The long-term average Canadian stock market returns are 7% — six times what you would make from the GIC.

You can potentially make even greater returns by placing your money in specific stocks. If you like consistent income, you would be interested in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **TC Energy** (TSX:TRP)(NYSE:TRP).

Both are wonderful businesses, but their stocks have sold off recently, making them attractive long-term investments that should outperform market returns over the next few years.

TD stock provides a 5.4% dividend

Because of pandemic disruptions to the economy, higher credit losses are expected at the Canadian banks this year. TD stock has become particularly attractive among the big Canadian banks given its quality and growth potential on an economic rebound, especially with its meaningful exposure to the U.S. retail banking market.

TD stock’s correction of 22% in the last 12 months is the perfect opportunity to buy for an elevated dividend yield of 5.4%. This is 35% more income than its appealing yield of 4% in a normal economy.

Importantly, the stock is undervalued for long-term investment. In a normal year, TD generates revenues of about $38 billion and net income of more than $11 billion. Inevitably, this year, its revenues and earnings are going to be lower.

At about $58.50 per share at writing, the compelling stock can deliver total returns of about 15% per year over the next three to five years. Furthermore, you can expect its dividend to increase during that period.

TC Energy offers a 6.1% dividend

TC Energy is a resilient business that provides essential services in the energy sector. It just reported its third-quarter results today. Management highlighted that the company's operations, flows, and utilization levels remain in line with historical and seasonal norms.

Year to date, its revenues only dipped 3% and its comparable EBITDA essentially stayed flat against the same period in the prior year. Moreover, its earnings per share actually climbed 15% to $3.55, putting its payout ratio at 68% for the period.

TC Energy's defensive business performance doesn't really warrant the stock's decline of 20% in the last 12 months. It also has a secured capital program of $37 billion from 2020 to 2023 to grow its business. About $5 billion of the projects are expected to complete this year.

At about $52.90 per share at writing, the attractive stock can deliver total returns of about 15% per year over the next three to five years. A dividend increase of 5-7% per year should be no problem for the Canadian Dividend Aristocrat.

The Foolish takeaway

Understandably, Canadians might want to be conservative with their money-management strategies during the pandemic. Investing in blue-chip dividend stocks like TD stock and TC Energy stock is as conservative as it gets in the stock investing world.

Take a closer look at the businesses and consider investing in their undervalued stocks in your TFSA for outsized tax-free income and returns in the long run.

CATEGORY

1. Bank Stocks
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3. TSX:TD (The Toronto-Dominion Bank)
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