Canada Revenue Agency: Buy These 2 Stocks in Your TFSA for Tax-Free Gains

Description

After the brutal week that ended October, you should be looking to scoop up the bargains with any excess Tax-Free Savings Account (TFSA) cash you've been hoarding in your unrewarding savings accounts. This piece will have a look at two beaten-up value options to consider if you're looking to get the most out of every TFSA dollar.

Canada Revenue Agency: Tax-free gains

Both names are timely bets that could correct to the upside at some point over the next 18 months. And to keep every bit of capital gains to yourself and not have to set aside a portion for the Canada Revenue Agency (CRA), you're going to want to stash both stocks in your TFSA, especially if you're one of many Canadians who've been "waiting" for the perfect time to invest in this pandemic-plagued market.

And just a disclosure: I've been buying both names on the way down and plan to continue doing so on further weakness. So, without further adieu, let's get right into the names:

TD Bank

TD Bank (TSX:TD)(NYSE:TD) used to be known as the premier Canadian bank, the one with the less-volatile retail business and a decent amount of exposure to the robust U.S. market. Today, the tables have turned, and TD Bank stock has lost most of its premium price tag. While the COVID-19 crisis has hit TD Bank worse than some of its peers in the space, I think that longer-term thinkers have a lot to gain by going against the grain with the name at current levels.

The bank still has one of the best risk mitigators in the business. While the bank doesn't have the best loan mix headed into a second wave of this crisis, TD Bank is well-equipped will come roaring back on the other side of this pandemic. TD Bank is among the first of the banks to come roaring back after crises, and this time, I believe, will be no different, even though it's vastly underperformed some of its smaller brothers thus far.

In the grander scheme of things, TD Bank is still a premium bank stock. The COVID-19 crisis merely caused TD Bank to skate offside, and the stock has already been punished as a result, with a valuation that's pretty much in-line with its Big Six peers that TD usually stands head and shoulders above.

If you're looking for outsized gains over the next five years and are willing to deal with medium-term volatility, I'd look to accumulate shares after the latest dip in the stock that was likely exacerbated by a slew of recent analyst downgrades. The damage (and analyst pessimism) is probably way overdone, and think TD stock will re-gain its premium multiple once this pandemic finally ends. For now, contrarians can lock-in the 5.4% dividend yield while they wait for macro conditions to normalize, however long that may be.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD.B) is a convenience store kingpin that's highly misunderstood. If this market were efficient, ATD.B stock, I believe, should be trading well above that of its historical averages, given the pandemic- and recession-resilient nature of its business.

Moreover, the defensive growth stock appears to have been unfairly labelled with a valuation that suggests that the firm's double-digit growth days are over. Although Couche hasn't been as active on the M&A front as it used to be, the firm is still capable of growing at an above-average rate.

Before the pandemic hit, Couche's management team had the ambitious goal of doubling its net income in five years. Now that the economy is under pressure and Couche has pulled back on its pursuit of opportunities that it may have made had we not fallen into a coronavirus recession, it seems like many investors expect the target to be missed.

Despite the pressures, I still think Couche can meet its original target, although many investors appear skeptical. Value creative M&A is as much about patience as it is about pulling the trigger. With enough liquidity to scoop up an elephant, Couche is a buy for its acquisitive potential.

With a track record of creating substantial value from every deal it makes, Couche's next big M&A announcement could cause shares to sustain a major rally.

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