TFSA Investors: These Stocks Could Soar in Value

Description

Tax-Free Savings Account (TFSA) investors are smart. They understand how valuable it is to avoid taxation. Years down the line, these investors could have *double* the money versus their non-TFSA friends.

But simply having a TFSA doesn't mean you're investing perfectly. Millions of Canadians give up tax advantages every year by investing in the wrong stocks.

This isn't a trivial issue. By using your TFSA incorrectly, you could be giving up millions.

Want to optimize your tax advantages? Here's how.

Don't buy these stocks

Whatever you do, don't buy capital-intensive stocks. These businesses can't grow nearly as fast as asset-light companies. And when things go bad, they go *really* bad.

Consider **Air Canada** (TSX:AC). Planes are pretty expensive, and they're required to generate revenues. Not only must Air Canada buy planes to expand, but the carrier also needs to maintain these planes whether or not they're flying. It's pricey to run an airline.

Many Canadians invested in Air Canada stock using their TFSA. This ultimately proved costly. Since 2006, shares have lost 25% of their value. That's a terrible return over a 14-year period.

Even worse, the stock was crushed during the COVID-19 pandemic. Shares are lower by 70% this year. Passenger revenues are down by an astounding 95%.

With a fleet full of planes to maintain, losses are piling up quickly. In 2020, the airline could lose $5 billion. That's more than its entire market cap!

Avoid capital-intensive stocks in your TFSA. Their growth is expensive, and a small misstep can send the business flailing.

The best stocks are *asset-light* businesses.

Best TFSA stocks

What's the opposite of a capital-intensive business? One that uses very little capital.

Software companies are perfect examples of this. **Constellation Software** (TSX:CSU) is one of my favourites.

Constellation owns a huge portfolio of software products. If the portfolio is so big, why haven't you heard of the company? Rather than focusing on consumer applications, Constellation specializes in enterprise software. Businesses use its products, not everyday people.

Enterprise software has three major advantages.

First, these customers can often afford to pay more than you or I could. Second, contract renewal rates are higher. Once a software is plugged into a company's day-to-day operations, they're loathe to change things up. Finally, software is free to replicate and share. Air Canada needs to order another plan to boost revenues. Constellation just needs to send a download link.

All of this makes Constellation a high-upside stock perfect for TFSA investors.

Since 2006, Air Canada stock has *lost* 25% of its value. Meanwhile, Constellation stock *rose* by 7,600%. That's the difference between a capital-intensive and an asset-light business.

Of course, Constellation isn't the only high-upside stock suitable for TFSA investors. New software companies are started all the time. If you want to make the most money, you need to catch these stocks early. Constellation may still be a great long-term pick, but its biggest days of growth are behind it.

Whether its artificial intelligence, e-commerce platforms, machine learning, or 5G, be sure to load your TFSA up with high-upside, asset-light stocks.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date
2025/08/26
Date Created
2020/11/04
Author
rvanzo