TFSA Investors: Where to Invest $6,000 Today

Description

Investors who invest in stock markets via Tax-Free Savings Account (TFSA) will certainly earn more in the long term against those who save in the TFSA. After all, a higher risk is compensated with higher returns. Canadian stocks delivered compounded annual returns of around 6%-8% for the last several years. But where to invest amid these volatile markets.

Look for long-term stability

Consider telecom giant **Rogers Communications** (TSX:RCI.B)(NYSE:RCI). It is well ahead in the race of rolling out 5G in the country. It serves more than 10.8 million subscribers in the country, higher than peers.

TFSA investors should look for stocks that offer stable returns against a reasonable amount of risk. Rogers fits this criterion as the telecom is a stable, mature industry that grows at a relatively slower pace. It has returned approximately 9% compounded annually in the last five years, beating the **TSX Composite Index**. Peers **Telus** (TSX:T)(NYSE:TU) returned 7%, while **BCE** (TSX:BCE)(NYSE:BCE) returned 6% compounded annually during the same period.

Rogers Communications provides wireless, cable, and media services. It generates more than two-thirds of its total earnings from the wireless segment. In the last five years, Rogers' net income grew by 10% compounded annually, outperforming the industry average.

Almost all the telecom companies in the country have reported steep earnings decline this year amid the pandemic. Rogers' net income decreased 27% year-over-year in the nine months ended September 30, 2020.

Bet on 5G

Interestingly, Rogers managed to launch 5G relatively earlier in the country because of its partnership with Swedish telecom giant Ericsson. So far, the company has rolled out 5G in 130 cities, far higher than peers BCE and Telus. The new technology should provide immense growth opportunities for telecom companies in the next few years.

It might not matter much who launched 5G first in the country after a few years. However, how these wireless companies play the opportunities emerging out of it will be interesting to see.

Dividends and valuation

Rogers stock is currently trading at a dividend yield of 3.3%, close to **TSX** stocks on average. The company distributes nearly half of its profits to shareholders in the form of dividends. Its earnings stability and visibility bode well for the company as well as for its shareholders. Peer stock Telus yields 5%, while BCE yields 6% at the moment.

So far this year, Rogers stock is up 5%, beating peers by a wide margin. Telecom companies saw a steep dent in their earnings in the first half of 2020. However, as economies are re-opening, they have witnessed some green shoots during the third quarter of 2020.

Compared to peers, Rogers stock is poised for a stable recovery, mainly due to its discounted valuation. Investors might not see steep gains in a shorter period with telecom stocks. However, long-term investors could see stable returns over the years with reasonable dividend growth.

Notably, dividends and capital gains will be tax-free for TFSA investors, even at withdrawal. Stocks like Rogers Communications will provide vital stability to your investment portfolio.

It's not prudent to stick to only one stock while investing, and one should look to diversify.

CATEGORY

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2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:TU (TELUS)
4. TSX:BCE (BCE Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)
6. TSX:T (TELUS)

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Author
vinitkularni20