Canadian Dividends: My Top December Pick for TFSA Investors Who Hate CRA Taxes

Description

If you're making passive income in a non-registered account, the Canada Revenue Agency (CRA) wants a piece of the pie. Depending on the income-paying security, you may be entitled to a generous Canadian dividend tax credit. Regardless, income investors should seek to use their Tax-Free Savings Accounts (TFSAs) for such investments if they've got the room, as the opportunity costs of hoarding cash in high-interest savings accounts have arguably never been this high.

A high-interest TFSA savings account is anything but in the era of near-zero interest rates. As such, investors looking to get the upper hand on a potential uptick in inflation would be wise to rotate their excessive cash hoards into bountiful dividend stocks, many of which still trade at attractive valuations at today's critical market crossroads.

This piece will look at one discretionary income stock that looks to have a considerable amount of upside potential as the economy makes moves to recover from the COVID-19 crisis over the next few years.

With the two latest vaccine breakthroughs, the pandemic's end feels that much closer. But for now, the worsening second wave could grip the markets amid the vaccine-drive rally's exhaustion. Should the market begin to lose sight of the longer-term recovery trajectory, I'd encourage you to think about buying the battered discretionary stocks, many of which still look priced with the assumption that the pandemic could drag on for longer.

Should you bet on a post-pandemic discretionary spending boom?

In a prior piece, I noted that if all went well with a 2021 economic recovery that we could be looking at an unprecedented post-pandemic discretionary spending boom once rainy-day savers feel more secure about their financial futures.

Right now, though, few folks are even thinking about a bounce in consumer sentiment amid surging coronavirus cases that could threaten to derail the economy's recovery out of the depths of the first wave of shutdowns.

The economy took major steps forward in recent months, but it's at risk of taking another big leap backwards if partial lockdowns wind up being just as bad as full lockdowns if worst comes to worst with the current coronavirus wave. Regardless, value investors should look past today's horrific situation to the brighter, more hopeful world that we could find ourselves in next year.

Sleep Country stock is about to wake up

Consider shares of mattress retailer **Sleep Country Canada** (TSX:ZZZ), which currently sports a 3.3% dividend yield at the time of writing. While the dividend stock has recovered the ground lost in the 2020 February-March market crash, the name still looks absurdly undervalued when you consider the possibility of a discretionary spending boom that could be in the cards once COVID-19 is conquered.

Amid the worsening second wave and exhaustion of the vaccine-driven rally, Sleep Country could be in a spot to pullback sharply, and that's when I'd pounce on the name if you're looking to beat the herd into the compelling COVID-19 recovery play.

At the time of writing, ZZZ stock trades at 17.8 times trailing earnings, 1.3 times sales, and 2.6 times book value. Not a cheap stock by any stretch of the imagination. But if you weigh the possibility of a discretionary spending boom that could come to be after the pandemic, I'd say the price of admission into Sleep Country is far too low.

Foolish takeaway

Mattresses are one of those big-ticket discretionary items that are likely to be in high demand once aggressive savers feel confident enough have to spend their excess cash and have it flow back into the economy. Once the vaccines are ready to be administered, Sleep Country is one of the value names that could lead the next upward charge for the markets through 2021 and beyond.

Stay Foolish, my friends.

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